LEARNING MADE EASY

4th Edition

Property Management Kit

for dummies®
A Wiley Brand

Learn how to competitively price your rentals

Manage rents, security deposits, and contracts with ease

Understand laws regarding fair housing practices

Robert S. Griswold, MSBA
Real estate expert and president of Griswold Real Estate Management

Property Management Kit

4th Edition

by Robert S. Griswold, MSBA

for dummies®
A Wiley Brand

Property Management Kit For Dummies®, 4th Edition

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Introduction

Welcome to *Property Management Kit For Dummies,* 4th Edition. You can discover many of life's lessons by doing some on-the-job trial and error. But that possibility doesn't apply to property management: The mistakes are too costly, and the legal ramifications too severe. This book gives you proven strategies to make rental property ownership and management both profitable and pleasant.

About This Book

Many landlord–tenant relationships are strained, but they don't have to be. A residential rental property owner who knows how to manage their property properly and who responds promptly to the legitimate concerns of their tenants will be rewarded with good people who stick around. The key is maintaining your property properly and constantly investing in upgrades and improvements. By doing this, you can be successful in meeting your long-term financial goals and realize that being a landlord is an excellent primary or secondary source of income.

This book is based on hands-on experience and lessons from my own real-life examples. Unlike many landlords and property managers, I believe that your tenants are your customers, not your enemies, and as such, you should treat them with respect. You may find investing in residential rental real estate to be a key piece of your overall investment strategy, but not everyone is cut out to be a property manager. I want to make sure you understand not only the basics of the rental housing business, but also some of the tricks that can make you glad you're a real estate investor.

Although this book is overflowing with useful advice and information, it's presented in a light, easy-to-access format. It explains how to wear many hats in the property management business: advertiser/promoter (in seeking tenants), host (in showing the property), handyman (in keeping up with and arranging for repairs), bookkeeper (in maintaining records), and even counselor (in dealing with tenants and their problems). Just as important, this book helps you maintain your sense of humor — and your sanity — as you deal with these challenges and more.

I wrote this book in essentially chronological order — from your first entry into the world of residential rental property ownership and the corresponding steps to

prepare and promote your property to showing your rental and selecting the right tenants. As a result, reading the book cover to cover makes sense, but feel free to read the sections that are most relevant to you at any given time. Skip around and read about those areas that are giving you problems, and I'm confident that you'll find some new solutions to try. You can also skip sidebars (text in gray-shaded boxes), but I think you'll enjoy these humorous anecdotes.

To make your life easier, I've included many of the forms you need to be successful in managing your rental — whether you're just starting out with a single-family rental home or condo, you have a handful of rental units, or you possess a whole portfolio of rental properties. These forms are available online at `www.wiley.com/go/propertymanagementkitfd4e`. Feel free to print them out, have your local legal counsel review them, and start putting them to use.

Foolish Assumptions

When writing this book, I assumed that you're likely reading this book because you're one of the following:

- **An unintentional property owner — someone who, through a series of circumstances, suddenly and unexpectedly came upon an opportunity to own a residential property.** Perhaps you inherited a house or condominium from a relative, and not wanting the property to sit idle, you decided to rent it out. Or maybe you transferred to a job in another city, and because you've been unable to sell your home, you've been forced to rent the property to help cover the mortgage and operating expenses. Many property owners find themselves in the rental housing business almost by accident, so if you count yourself in this group, you're not alone.
- **One of those people who made a conscious decision to become a residential rental property owner.** Perhaps, like many rental owners with a plan, you needed to buy a new, larger home and decided to keep your existing home as a rental property. Or maybe while you were looking to own your own place, you found a great duplex and decided to live in one unit and rent out the other. In a world where people seem to have more and more demands on their time, many aspects of rental housing ownership are very appealing, such as the capacity to supplement a retirement plan with additional income and the proven opportunity to build wealth. The key to achieving this success is finding a way to make money while still retaining control over your life.
- **Someone who already works in the rental housing industry.** Maybe you're just starting out, or maybe you've been in the field for some time. Either way, you want to find out more about your chosen profession. Good for you. The rental

housing industry has so much variety that you'll always be discovering new things and appreciating that every day is a new challenge. Yes, there is some repetition (you have to collect the rent every month), and you must be available at all hours of the day and night (for emergency calls), but unlike in many jobs, no two days ever seem to be the same. That's what attracts so many professionals to the field of residential property management (and keeps them there).

When you're an owner, residential real estate offers one of the best opportunities to develop a steady stream of residual income that you earn whether you're sleeping, participating in your favorite leisure activity, enjoying your retirement, or relaxing on vacation. Whatever the circumstances, the bottom line is the same: You hope to generate sufficient income from the property to cover the debt service, pay for all operating expenses, and possibly provide some cash flow, along with tax benefits, appreciation, and equity buildup. The key to your success is knowing how to manage people and time. And this book has plenty to offer you on that front.

Icons Used in This Book

Scattered throughout the book are icons to guide you along your way and highlight some of the suggestions, solutions, and cautions of property management.

REMEMBER

Remember these important points of information, and you'll have great success as a rental property owner.

TIP

Keep your sights on the bull's-eye for important advice and critical insight into the best practices in property management.

WARNING

This icon highlights the land mines that both novice and experienced rental property owners need to avoid.

TRUE STORY

This icon flags real-life anecdotes from my many years of experience and mistakes. When you've managed more than 560,000 rental units in 340 years, you see some interesting situations. Now, I share them with you.

TECHNICAL STUFF

This icon flags specialized business facts and data that are interesting as background data but not essential for you to know. You can skip paragraphs marked by this icon if you're not interested in tangential information.

Beyond the Book

In addition to the forms included here in the book, you can go online to find many more forms that are going to make your life a lot easier as a residential rental property owner. Here's the address:

www.wiley.com/go/propertymanagementkitfd4e

I include a state-by-state reference to the state laws that pertain to residential rental housing. You'll also find a real estate glossary and resources that are available from the Institute of Real Estate Management (IREM), the National Apartment Association (NAA), and the National Association of Residential Property Managers (NARPM).

This book also has a helpful online cheat sheet with easy-to-access tips for property managers. Just go to Dummies.com and type "Property Management Kit For Dummies Cheat Sheet" in the search box.

Where to Go from Here

To get benefit from any great resource book, you must read it! This book is designed for experienced and seasoned landlords, as well as rookies who still think that all tenants are nice and prompt with rent payments and should be invited over for Thanksgiving supper.

Whether you're contemplating owning residential rental real estate, looking to fine-tune your proven landlord secrets, or facing financial ruin at the hands of the Tenant from Hell, this book offers chapter after chapter of solid rental property management advice, for everyone from new rental property owners who have a single rental home or condo to owners of hundreds of units. The methods I present are effective for all sizes and types of residential rental properties. The book explains how to attract qualified prospects; select and screen tenants; maintain and increase the rental rate; and handle security deposits, rental contracts, broken water pipes, late rents, tenants who overstay (and don't pay). Find the topic you want to know more about, and start reading right there.

REMEMBER

Everything is manageable and workable — if you know what you're doing!

Property Management Kit For Dummies, 4th Edition, helps you protect your investment and maintain your sense of humor, as well as your sanity, as you deal with one of the most unpredictable professions: property management. Consider this book to be your property management bible, written just for you.

1

So You Want to Be a Landlord?

IN THIS PART . . .

Figure out whether you have what it takes to manage residential rental property.

Discover what you need to know if you're taking over ownership of a residential rental property.

Work with the current tenants, and inform them of your policies and procedures.

IN THIS CHAPTER

- Looking at the pros and cons of residential property management
- Exploring the different types of residential real estate
- Surveying the steps involved in renting your property
- Walking through the day-to-day details of property management

Chapter 1
Residential Property Management 101

The key to long-term success and wealth-building through real estate ownership lies in the foundation you acquire as a hands-on property manager. Some people start by managing rental properties owned by someone else and gain a great deal of experience that they can use for their portfolio. Other people learn from trial and error — but that can be expensive.

There are many positive reasons for becoming a rental property owner or manager and just as many ways of doing so. Perhaps you've saved up the down payment to purchase your first small rental unit and hope to see your investment grow over the years as a nice retirement nest egg or a supplement to your current income. Maybe you want to invest in a medium-size apartment building and build some equity as well as rental income to supplement or replace your current income. Perhaps you've inherited Aunt Gertrude's run-down cottage and need to find a good tenant who'll care for it and pay the rent on time. Maybe you recently closed on your new primary residence, only to find that selling your existing home isn't as easy as the real estate agent promised. Or perhaps you've had to move across the country to find a suitable job but want to return to your home in the future to avoid getting priced out of that market years later when you return.

Whether you plan to become a full- or part-time property manager, you need to know what you're doing — practically, legally, and financially. This chapter serves as a jumping-off point into the rental property world. Here, you can find useful info, tips, and checklists suitable for novice or seasoned rental property managers. So get ready for some pragmatic and realistic sage advice from the tenant trenches to help you handle situations when they arise!

Understanding Property Management

Rental property owners provide consumers a product known as *shelter.* Property managers, who either work for themselves or as the agents for an unrelated third-party owner, handle the day-to-day aspects of making sure that the provided shelter meets their customers' needs. Put another way, as either a property manager or property owner, your obligation is to provide your customers a decent place to live in exchange for the payment of rent. Although property management doesn't seem very complex, you can avoid the many mistakes unprepared property managers make by knowing what you're getting into.

The following sections give you a quick overview of the pros and cons of property management. Chapter 2 provides more in-depth analysis of these advantages and disadvantages for a residential rental property owner to help you determine whether self-management of your rental property is the right choice for you.

Considering the benefits

Property management can be a rewarding and enjoyable venture. I can't imagine my life without some aspect of property management in it. (Why else would I have written this book, right?) Following are some of the reasons why I get such a kick out of this business:

- **Experience with real estate investment:** As you manage residential rental property, you have the opportunity to observe and begin to understand investing cycles, which is an essential skill for becoming a successful real estate investor. Some real estate investors succeed without ever being hands-on property managers, of course, because they hire others to handle the task for them. But I believe residential rental property owners should gain that real estate investment expertise by actively working as property managers for several years, either for themselves or others.
- **Interaction with different people:** If you're a people person, you'll find that property management is a great opportunity to meet *all* types of people. Not everyone you'll encounter is someone you'll want to make your close friend, but

you'll certainly have the chance to work with a smorgasbord of personalities. I could write a book just about the people I have met over the past 40 years!

- **Skill development:** Property management requires diverse skills because you must handle so many different tasks (such as marketing, advertising, leasing, screening, and maintenance). But it also allows you to grow those skills beyond the basics through patience and passion. You might begin by advertising your rental unit in a basic way with an onsite sign and move to developing a technologically advanced online promotional campaign with 3D property tours available worldwide. Pay attention to how unrelated products are presented for sale, and apply those concepts to residential rental housing. Most of the best marketing ideas are already out there; you just need to adapt them to your rental property.
- **Variety:** Personally, I enjoy the variety of tasks and challenges in property management. Sure, some aspects are repetitious. Rent is due every month, and all properties require ongoing care and maintenance. And some days can be exhausting. But for the most part, every day in property management is something new.

Confronting the icky parts

You can't expect all aspects of property management to be fun. As in your primary job, some days run smoothly, and others are filled with problems. Here are a few of the most challenging aspects of the property manager gig:

- **Difficult tenants (and others):** Despite the great people you meet, property management has its fill of difficult and challenging personalities, including people who're downright mean and unpleasant. You have to be prepared for adversarial and confrontational relationships. Collecting the rent from a delinquent tenant, listening to questionable excuses, or demanding that a contractor come back and do the job properly requires patience, persistence, and a fair but firm approach.
- **Long hours:** Because you're dealing with housing, you don't know when you're going to be needed — at 3 p.m. or 3 a.m. Like me, you can expect to be constantly on call — even when you're on vacation, at the movies, or in the middle of a family holiday dinner — to deal with issues that only the rental owner or property manager can handle. Fortunately, you can minimize these inconveniences by planning carefully and hiring competent, reliable employees and vendors who can prevent many unexpected emergencies through good management and maintenance. Also, technology has improved significantly and can make remote handling of many issues more manageable. You can now receive and review photos and even repair proposals on your smartphone, for example. But owning and managing rental property remains a 24/7, year-round commitment.

- **Need for emergency capital:** One of my favorite sayings and goals in life is "No surprises," but owning residential rental properties can lead to situations in which unanticipated expenses arise at any time. Tenants might suddenly stop paying rent at the same time the roof leaks and the water heater goes out in the middle of the night! Having a nice nest egg, a rainy-day fund, or at least a decent unsecured credit line at reasonable rates can be very helpful, as most rental property owners experience a squeeze on their cash flow at times.

WARNING

- **Potential liability:** After more than 40 years in property management, I believe that most tenants are good people who are just looking for a decent, quiet place to call home. But some "professional tenants" look for any mistakes you make or even set traps for you to fall into that can lead to claims for free rent or even litigation. You need to stay on top of all the legal requirements for landlords in your area and make sure that you always comply with all laws and disclosures. If you're not willing or able to keep up with ever-changing legal requirements and health and safety issues, or if you're sloppy with your record-keeping, you may learn some expensive lessons!

RENTERS DRIVE RENTAL PROPERTY MANAGEMENT

The U.S. Census Bureau reports that more than one-third of the U.S. population, or 94 million people, are renters occupying more than 43 million rental units, including more than 14 million single-family-home rental properties. The number of renters has increased in the past few years, with the COVID-related economic challenges in most areas of the country. Also, job-market uncertainty has made it more difficult for some people to become homeowners, and the overall percentage of home ownership has fallen from a high of 69 percent in 2006 to 65 percent in early 2021.

Individual property owners dominate the rental housing industry. According to the National Multi Housing Council, per the U.S. Department of Housing and Urban Development and the Census Bureau 2020 survey, individuals own nearly 72 percent of small rental properties with 2 to 4 units and nearly 23 percent of residential income properties with 5 to 49 units. The majority of residential rental properties of all sizes in the United States are owned by single-purpose legal entities, such as limited liability companies (LLCs), limited partnerships (LPs), limited liability partnerships (LLPs), and general partnerships, which often are individuals or a small number of investors pooling their resources. By comparison, one of the most popular ways for individuals to invest in real estate is through real estate investment trusts (REITs), which have exploded in the market with the acquisition of billions of dollars' worth of high-profile rental real estate assets. In spite of the significant publicity they've received in the real estate media, REITs own only 3 percent of all residential rental housing units in the United States.

TIP

You should also get a copy of the companion book *Landlord's Legal Kit For Dummies* (John Wiley & Sons, Inc.), which I co-wrote with Laurence C. Harmon.

The good news is that these negatives can be found in many other careers or professions that don't offer the benefits and satisfaction you can get from property management. So in my opinion, the pros outweigh the cons.

Examining Types of Real Estate

Before you run out to purchase a residential rental property, you need to have a good idea of the different types you can own. Most real estate investors specialize in properties with specific uses. Investment properties fall into classifications such as residential, commercial, industrial, hospitality, and retail.

For the purposes of this book, I focus only on residential real estate because the majority of rental real estate is housing, and the basic concepts are easy to understand and master. (After you master the basic concepts of residential real estate, you may want to consider other types of property management.) The best practices I present throughout this book are applicable to these types of residential rental properties:

- **Single-family houses and condominiums or townhomes:** Most real estate investors start with a rental home, condo, or townhome because these properties are generally the easiest ones to gain experience with. They may be located in a common interest development (CID) or community association in which all the common areas are the association's responsibility.
- **Duplexes, triplexes, and fourplexes or subdivided houses:** This category includes properties with two to four units. Often, these properties are the first choice for real estate investors who plan to live in one of the units or want to take the next step up from investing in a single-family rental home or condo. These properties qualify for favorable financing terms, so they're perfect for the new investor or an investor in higher-priced urban markets.
- **Medium-size multifamily apartment buildings:** These buildings usually have between 5 and 30 units; they are best run with part-time to full-time on-site management and regularly scheduled maintenance and contractor visits.
- **Large multifamily apartment buildings:** These properties are larger buildings that can have 30 or more rental units in a single location, or in close proximity on scattered sites, with an on-site manager or maintenance staff. Owning one of these properties is the goal of many real estate investors who look forward to being able to hire a professional property manager and just check their bank account for their regular cash distributions. (In Chapter 3, I reveal what to look for in a good professional property manager.)

No matter what type of residential real estate you're involved with, you need to understand the basics of property management. You must market or staff a property differently depending on its size and location, but many of the fundamentals are the same regardless.

Over the course of your tenure as a property manager, you'll probably manage several types of residential properties, which is just one of the challenging yet fulfilling aspects of the job. You may start out managing single-family rental homes or condos, for example, and then see your investments or career progress to larger rental properties. Sometimes, people in the rental housing business start as on-site employees for large rental properties, learn the ropes, and later apply that knowledge to become market dominators of rental houses in their areas.

Owning and managing all types of rental property can be lucrative, so I suggest that you jump in wherever you have your first opportunity, because no rules mandate your starting position.

Renting Your Property

One of the first and most important lessons I learned when I started in property management more than 40 years ago is that vacant real estate isn't a very good investment. You need to fill those vacancies and keep them filled with tenants who pay on time. Just try looking in the mirror and telling yourself that all the rent came in last month. I bet you can't do it without smiling!

Renting your property and retaining your tenants don't magically happen, of course; those tasks require having a plan and doing a lot of work. But you want to work smart, not just hard. In the following sections, I cover some of the best practices for preparing your rental units, setting your rents, attracting qualified prospects, and closing the sale.

Chapter 4 expands on where everything begins: acquiring the rental property. Part 2 helps you position your new rental property within the rental market and discover how to find good tenants.

Preparing the property

Before you can rent your property, you have to make sure that it's ready for a tenant to move in. But you can't simply put up a "For Rent" sign and expect to rent to the first caller; you need to spend some time preparing the property properly. And by *some time,* I mean a lot.

Relax! Tear up your applications to those reality shows that renovate your fixer-upper for free, because you *can* prepare your property yourself. Just remember to focus on the inside as well as the outside. Chapter 5 shows you the best way to determine what to upgrade and renovate to meet the needs of your target market. I also explain how to ensure that your property's *curb appeal* (exterior appearance) makes potential tenants want to see the inside — not keep driving by or swiping to the left to the next property on the list.

WARNING

During this stage, you get to test your decorating-on-a-budget skills because you don't want to over-improve the property. But if you're too tight with cash and try to get by with anything less than your best effort, be ready for most of the people who show interest in your rental unit to be the least-qualified prospective tenants. The moral of the story? Don't be cheap, but do be practical!

REMEMBER

To get great tenants, you need to guarantee that your rental property compares favorably with other properties in your area and makes that important positive first impression. These days, that first impression often happens online, but it always starts with the exterior of your rental property, which should have a neat and well-maintained appearance, and continues with a clean and inviting interior, with the features and amenities that prospective tenants in your area expect.

Preparing the unit properly also often requires the use of outside vendors, suppliers, or contractors. What you don't contract out — tasks such as basic cleaning, maintenance, and painting — you need to do yourself. You also need to know how to perform a careful inspection to make sure that the unit is ready to show. I give you details about how to accomplish all these tasks in Chapter 5.

Knowing how much to charge

Understanding what you can charge your tenants is far from arbitrary. Setting the rent in particular can be tricky — especially if you've just spent hours investing your time and sweat in renovating and scouring your rental unit to make it sparkle.

In such cases, you may overestimate the market value of your unit because you have so much personally invested. But your prospects aren't likely to be impressed that you laid the tile; instead, they'll quickly point out that the flooring color doesn't match their furniture. But if you lower the rent $300 per month, they'll consider taking the unit off your hands, almost as though they're doing you a favor. You may be able to structure some mutually beneficial rental concessions, but don't be a pushover.

Many rental property owners are simply too nice. Maybe you're someone who has trouble bargaining and holding out for the top fair-value dollar. You may be kind of like my mother-in-law, who was a sweet but overly generous woman — especially when it came to yard sales. My wife and I are glad that no one ever offered Rita 50 cents for our car!

In addition to setting the rent, you need to make the following decisions before a tenant moves in:

- **The amount of the security deposit:** Setting security deposits is a function not only of market conditions, but also limitations on the amount you can charge and whether that amount is fully refundable. These restrictions are set by state laws. Determining whether you want to pay your tenants interest on the deposits you hold is also subject to law, but certain advantages can warrant doing so even where not required (especially for long-term tenants).

  TIP

  The best way to decide on all the details of the security deposit is to conduct market surveys to see what others are doing. If everyone else has security deposits set at approximately half of a month's rent, requiring your new tenants to come up with a security deposit of two full months' rent on move-in is difficult.

- **The type of rental contract:** Another important decision that has lasting consequences is deciding whether a lease or month-to-month rental agreement is best for your property. Although the residential rental housing industry is trending away from leases because they tend to favor only the tenants, you should reach your conclusion after conducting a market survey and understanding the pros and cons of each type of contract.

Check out Chapter 6 for more info on determining how much to charge, setting deposits, and figuring out what type of rental contract to use.

Capturing prospects' interest

A successful property manager needs to understand the role of marketing in creating demand and meeting the needs of local renters. Fortunately, your marketing and advertising possibilities have increased dramatically with the advent of the Internet and social media. You (or in my case, my grandchildren) can develop a fantastic website with digital photos, floor plans, and 3D tours. Just make sure that you follow all the fair-housing laws as you work to generate rental traffic.

In Chapter 8, I review various electronic and nonelectronic options for promoting your rental property and attracting prospective tenants.

Turning interest into property visits

The ways to attract potential tenants are endless, but the fundamentals of getting them to visit your property center on your ability to answer their questions — typically online at first, and later on the phone or in person. You also need to be sure that you understand fair-housing laws when you prescreen an interested party, as discussed in detail in Chapter 11. You need to understand how to qualify your prospects properly and legally, for both what you want in a stable, long-term resident and what they need to call your rental property their home for years.

Converting your texts, emails, or phone calls to actual property visits is the next essential step to creating maximum interest in your rental unit. Chapter 9 explains how to get prospective tenants to view your property.

REMEMBER

The way in which you show your property to prospects is important. Avoid walking from room to room, stating the obvious. Instead, point out certain benefits of your unit's unique or special features. Just don't oversell the product and talk fast, like a YouTube or online infomercial. Ultimately, the best technique for showing your property is letting the property itself make the right impression, as I explain in Chapter 10.

The best result you can expect to achieve at the property-viewing stage is persuading the prospect to complete your rental application and put down a holding deposit. What the prospect can expect from you at this time is the receipt of all of the very important mandatory disclosures.

Picking your tenants and signing the deal

Property management isn't exactly like an online dating game, but you do want to gather information (while following all fair-housing laws to the letter, as covered in Chapter 11) and select a tenant who meets or exceeds your minimum written rental qualification standards. Tenant selection is probably the single step in the rental process that can make or break you as a property manager, so I devote a lot of detail to this important topic in Chapter 11.

REMEMBER

With tenant selection, what seems to be a fairly straightforward process can actually be tricky because of the various limitations on the questions you can ask and the information you can request from interested applicants. Follow the same procedure for everyone to comply with fair-housing laws, and determine how you're going to verify each prospect's rental application. Be sure to select tenants based on objective criteria and then communicate your decision properly to *both* approved tenants and unsuccessful applicants.

Getting Your Hands Dirty: Managing the Property

You never hear from your tenants, yet the check seems to come in the mail each month. Managing your rental unit seems easy — just like you pushed a button! But after a year of progressively bursting with pride at your exceptional property management skills, you decide to drive by the property, only to find that your retirement plans and financial nest egg are candidates for a remake of *Animal House!*

In the next sections, I present the practical, in-the-trenches part of property management that can help you get familiar with every day-to-day eventuality related to the operational side of property management and the life cycle of a tenancy.

Moving tenants in and out

Coordinating the move-in of a new tenant is one of your most pleasant tasks, because this time is your best opportunity to ensure that your tenant starts out on the right foot by explaining your rental rules and guidelines. Chapter 12 helps ensure that your move-in process runs smoothly.

But all good things must come to an end. That end should start with your making sure that the move-out date is mutually agreed-on in writing and that the tenant understands your expectations, policies, and procedures through a tenant move-out information letter. I share more information about making the move-out process as painless as possible for everyone involved in Chapter 16.

Collecting rent

You can greatly improve your chances of making the rent collection process a positive experience by emphasizing your collection policy when your tenant first moves in and by answering for your new tenant all the who, what, when, where, and how questions they may have about their rent payments you collect.

But no matter how carefully you screen your tenants and how thoroughly you explain your rent collection policy, sometimes the inevitable happens, and your tenant is unable to pay the full rent when it's due. What do you do? Start by issuing reasonable but firm policies when the tenant moves in and enforcing your grace period and late-period policies. Then, if your tenant doesn't pay the rent or doesn't live up to their responsibilities under the rental contract, you're prepared to take the appropriate legal action to regain possession of your property as quickly as possible. Chapter 13 provides more in-depth info to help you collect rent.

Keeping the good tenants

Turnover is your number-one nemesis as a rental property owner. Although it's inevitable, your ability to renew your leases and provide incentives for your tenants to stay and pay can be significant in controlling your expenses and maximizing your rental income. That's why keeping your tenants — particularly your good tenants — is a smart move.

TIP

One of the best ways to ensure that your good tenants stay with you is to develop a tenant-retention program that offers them incentives. This action shows that you appreciate them. Chapter 14 offers details on the importance of developing a good landlord–tenant relationship from the perspective of your tenants. It also reveals your tenants' most important needs: good communication, timely maintenance, respect for their privacy, consistent policies, and good value for their rental dollar.

Dealing with troublesome tenants

Despite your best tenant-screening efforts, you're going to make the wrong decision at some point and allow a problem tenant to move in, or you'll have a good tenant who turns sour. But you can lessen the number of these incidents by getting to know some of the problems you may encounter and how to deal with them early on:

- **Late or missed rent payments:** Timely payment of rent is the lifeblood of real estate investing, because you can't pay your mortgage or expenses without it. A written rent collection policy is a valuable tool for minimizing these problems. You also need to know about any government or private financial resources available to your tenant to help them pay the past-due rent, as most courts in a post-pandemic environment are less likely to enforce an eviction until all such resources are considered.
- **Loud tenants:** It takes only one boisterous tenant to disrupt the tranquility of the whole neighborhood and destroy your tenants' right to "quiet enjoyment." Developing and implementing rental policies and rules can prevent your problem tenant from chasing the good tenants away. At many properties, the one bad apple is the reason why more of the good-apple tenants leave than any other single issue. So don't underestimate the importance to your cash flow of removing disruptive tenants in a timely and legally allowed manner.

Chapter 15 gives you some additional tools for dealing with problem tenants effectively. I also describe the best way to handle common tenant problems and the pros and cons of alternatives to an eviction.

Maintaining the property

Are you familiar with the saying "To own is to maintain"? When you have only a few rental units or are just starting, you often do much of the maintenance work on your units yourself. But as you acquire more properties or advance in your primary career, you need to explore the benefits and consequences of using employees. If you own a medium-size to large property, having an on-site employee who's responsible for its day-to-day management is mandatory.

To keep your property in tip-top shape, you also need to work with outside vendors and suppliers who are pros within their industry. Always keep in mind that you get what you pay for and that maintenance can be one of the largest expenses that landlords face. Part 4 helps you navigate the nitty-gritty, hands-on aspects of managing employees, vendors, and contractors and maintaining your property.

Protecting your investment

Like many property managers, you probably consider your property to be an investment. If you continuously lose money, having the property isn't worth the hassle or the expense, right? Not to worry. Although you can't predict bad weather or crime, you can safeguard the value of your investment by doing the following:

- **Being aware of environmental hazards that can occur:** Minimize your risk, and be prepared for natural or environmental hazards such as storms, fire, carbon-monoxide gas, bedbugs, and mold. See Chapter 19 for details.
- **Buying the necessary insurance:** You can't avoid buying insurance, so I make sure that you know enough to be dangerous when your insurance agent says you need coverage for snowstorms at your duplex in Phoenix. Chapter 20 covers the types of insurance you need to consider.
- **Paying your taxes:** Property taxes are a reality of life almost everywhere. Chapter 20 makes sure that you know how they're calculated and what you can do to minimize your tax payments by appealing your property's assessed value when market conditions decline.
- **Tracking your money:** You may not want to be a greedy landlord, but you'd better track your income and your expenses, as you'll need to file income tax returns annually. In Chapter 21, I cover the best way to organize your files and the top property management software that you can use to streamline and simplify this important but potentially time-consuming aspect of managing rental housing.
- **Increasing your cash flow:** Sometimes, recouping all the costs for your property isn't easy, so you may need to find ways to get more cash in your hands. As you discover in Chapter 22, a wide assortment of options awaits, including government-subsidized housing programs, special niche housing markets, and lease options.

IN THIS CHAPTER

- Classifying types of residential rental property owners
- Listing some advantages of owning residential real estate
- Understanding what makes a good residential property manager
- Assessing your management skills and experience

Chapter 2

Do You Have What It Takes to Manage Your Own Rental Property?

Real estate can be a great source of income, whether you're looking for steady, supplemental retirement income or a secure financial future. Most residential rental property owners want to become financially independent, and real estate is a proven investment strategy for achieving that goal. But after you sign your name on the dotted line and officially enter the world of residential rental property ownership, you face some tough decisions. One of the very first concerns is who handles the day-to-day management of your residential rental property. You have units to lease, rents to collect, tenant complaints to respond to, and a whole host of property management issues to deal with. So you need to determine whether you have what it takes to manage your own residential rental property or whether you should hire and oversee a professional property management firm.

Owning investment real estate and managing rental units are two separate functions, and although nearly everyone can invest in real estate, managing it takes time, special skills, and the right personality. In this chapter, I highlight the

importance of relationships with people, because property management is really people management. I also give you the lowdown on some of the advantages of owning residential rental property and help you assess whether you have what it takes to manage your own property.

Understanding That Managing Residential Rental Property Is a People Business

Some rental property owners find themselves managing their own properties without even knowing what management requires. Managing the physical aspects of your properties (the buildings and common areas) and keeping track of your income and expenses are fairly straightforward tasks. But many rental property owners' most difficult lesson is the management of people.

Rental housing management requires you to deal with many more people than you may think. In addition to your tenants, you interact with rental prospects, contractors, vendors, suppliers, neighbors, and government employees. People, not the property, create most rental management problems. An unpredictable aspect always exists in any relationship with people.

REMEMBER

As in most businesses, the ability to work with people is one of the most important skills for being a successful property manager. If you enjoy interacting with people and are adept at working with them, you're off to a good start toward becoming a successful — and likely prosperous — property manager.

Identifying the Types of Real Estate Owners

Residential rental property management has been around for hundreds of years, ever since property owners first realized that they could earn income on their land and buildings by renting them to tenants. These days, the title *landlord* is no longer bestowed only on the landed gentry. There are as many different ways that people become property owners as there are types of rental properties. Although the nature of the business has changed over the centuries, today you can classify rental property owners in two categories: the inadvertent rental property owner and the long-term investment rental property owner. No matter which category you find yourself in, one thing is constant: The key to your success is sound management.

The inadvertent rental property owner

Many property owners find that they're in the rental housing business almost by accident. Although solid reasons to invest in and own rental real estate exist, many owners begin their real estate careers by chance or through circumstances beyond their control, such as the following:

- Some people inherit a house or condominium from a relative and don't want it to sit empty.
- Other people transfer to a job in another city and can't sell their old home, so they're forced to rent the property because they want some income to help cover their new mortgage and operating expenses.
- Some folks who are looking to own their own place find a great duplex where they can live in one unit and rent out the one.
- Other owners are *upside down* on their mortgage (owe more than the house is worth) and can't sell their property for enough money, so they rent it (while finding more modest accommodations for themselves) until the market improves for sellers. Note that this scenario also applies to some couples who are going through a divorce.

Whatever the circumstances, the bottom line is the same: The property owner hopes to generate sufficient income from the property to cover the debt service and all operating expenses, and possibly even to provide some cash flow, along with tax benefits, appreciation, and equity buildup.

The buy, fix, and flip or refinance owner

If you have ever had insomnia, you have likely seen infomercials about people who have made great fortunes buying and flipping properties. Although this concept is fundamentally sound, it is much easier said than done. Just as gamblers tell you only about their great wins, the reality is that many pitfalls await the novice. But there is a place for this type of real estate investor — another category of real estate ownership in which a competent and savvy property manager can make a real difference.

In a solid real estate market, you often find properties appreciating at an annual rate of 3 to 5 percent — a solid, sustainable rate of appreciation that rewards investors with long-term investment horizons who take the buy-and-hold approach with their real estate assets. This buy-and-hold strategy works and should always be the foundation of your wealth-building.

But in some areas, the demand for housing is so great that the limited supply of new and existing properties on the market is insufficient to meet demand. It's in markets with high demand and rapidly escalating prices that real estate speculators with a buy-and-flip strategy tend to appear.

The buy-and-flip strategy can also work with existing homes or condominiums that the investor can purchase from a motivated seller at a wholesale price that's below market value. The investor may not even have to close escrow before finding a buyer who's willing to pay retail price. Some minor cosmetic work or simple improvements may be needed before reselling, but typically, buy-and-flip investors really make their money when they buy at a discount, renovate and then locate a buyer at full market value.

With the *buy, fix, and refinance strategy,* you invest in rental housing properties to which value can be added through repairs, upgrades, and improvements. You take a distressed property and turn it into a solid, well-maintained property with a good, stable tenant. Over the years, with increased equity in the property and as long as interest rates are attractive, you could refinance the property if you so choose and use some of your equity to make other real estate investments.

TIP

See *Real Estate Investing For Dummies, 4th Edition* (John Wiley & Sons, Inc.), which I co-wrote with Eric Tyson, for a full discussion of flipping versus our preferred strategy of serial home selling or even the more conventional and lower-risk strategy of buy, fix, and hold.

The long-term investment rental property owner

Although we have seen real estate demand ebb and flow during up and down cycles over the past 12 years, and lately even through a pandemic, residential real estate remains one of the best, most reliable, and most consistent investments in terms of long-term return. For many current landlords, of course, the popularity of real estate started with the tremendous increase in the value of real estate from the mid-1990s to the mid-2000s. Many people found that real estate investing became a key element of their diversified investment portfolio. And why not? Real estate is a cornerstone of the American dream. Many people strive for years to own their first home and then realize the tremendous investment opportunity offered by income-producing residential rental real estate.

WARNING

FLOPPING IS PART OF "BUY AND FLIP" EXCEPT ON "REALITY" SHOWS

I often serve as an expert witness in real estate litigation matters and recently had a case that illustrated the challenges of the buy-and-flip strategy for a home featured on one of those cable programs on your favorite real estate home improvement channel. The stars of this show are a young couple; she is the designer, and he is the contractor. One day, while scouting a popular high-demand area of Henderson, Nevada, they located a vacant home with weeds 3 feet high, a leaking pool, dated appliances and countertops, drafty windows, a bootleg garage-to-bedroom conversion, and so on. They purchased the property for $199,000.

The show highlighted the demolition of pretty much everything in the interior of the home, down to the studs. Then a time-motion video showed the process of renovating the kitchen with new counters and appliances, decorative painting and tiling, and pool replastering, making the property the best home on the block. The beautifully completed home was sold to an older couple from out of state for $295,000. Thus, with renovation costs of $24,000, and closing costs of $11,800, the couple claimed that they made a net profit of $60,200 in four months.

That was great until the buyers sued them, alleging that the workmanship of the renovation was deficient and that the property had construction defects that would cost $150,000 to correct. The case ultimately settled, but no follow-up episode of the program acknowledged that the $60,200 "profit" was really a loss of more than $100,000! So, don't think that those impressive home improvements, "Buy low/sell high" "reality shows" are always the true "reality"!

Although they can be very entertaining and give you some great upgrade ideas for your existing rental properties, these shows are not realistic; they always seem to understate the true costs of acquiring, holding, upgrading, and reselling property. The flippers seem to have significant available cash, which they tie up for four to nine months at zero cost, never placing a value on their sweat equity or time, and ignoring the real costs of commissions and operating costs such as property taxes, association dues, or utilities during the hold period. Finally, when was the last time one of these shows featured a flip that was actually a flop? That outcome is likely at least a third of the time for even the savviest flippers.

In today's world, more and more demands are placed on your time, so many aspects of rental property ownership are appealing. People want to supplement their current retirement plans (which are predominantly invested in cyclical stocks, bonds, and mutual funds) with additional sources of cash flow, and real estate has a proven track record as one of the greatest wealth-builders of all time.

Most folks find that generating a stable income without having to punch a time clock and not being limited to earning an income only for time spent working for someone else is an attractive option. Even most professionals, such as lawyers and accountants, find their income to be constrained by their billable hours. Usually, the more hours they work, the more money they make. But they are limited in the actual number of hours they can work, which limits their income potential, so having ways to generate income outside their main job is beneficial.

REMEMBER

Real estate is a key element of your long-term investment category that can allow you to accumulate more wealth in your lifetime than you can from only one source of income. Real estate investments provide additional cash flow and significant asset value over time. So what are you waiting for? The time to begin your real estate ownership and management career is now. The sooner you start, the sooner you can achieve your personal and financial goals. The key is to make money while retaining control of your life. Real estate offers one of the best opportunities to develop a steady stream of residual income that you earn whether you're sleeping, engaging in your favorite leisure activity, vacationing, or enjoying your retirement.

Recognizing the Advantages of Owning Rental Property

A great advantage to building wealth through real estate is the ability to use other people's money (referred to as *OPM* in Urban Dictionary and on online real estate investing websites). You'll likely purchase a rental property with the help of financing from a lender; then your tenants provide the monthly funds for the debt service payments and for ongoing operating expenses and capital improvements.

The wide availability and low cost of real estate financing over the past few years make real estate investing a viable, realistic option for virtually everyone. Even when commercial lender real estate loans were difficult to obtain during the financial crisis of 2008–2012, many deals still went through, thanks to seller financing.

Most people purchase real estate by using leverage gained by borrowing from the seller or a lender. *Leverage* is the purchase of real estate with financing; it usually consists of a cash down payment from the buyer and a loan or other people's money. Here are the two types of leverage:

- **Positive:** With this type of leverage, you can earn a return on both your cash investment and the entire value of the real estate. The ability to control significant real estate assets with a small cash investment is one of the best

reasons to invest in real estate. You might purchase a $100,000 rental home with $20,000 in cash and a bank loan for $80,000, for example. If the home value doubles in the next decade, and you sell this home for $200,000, you've turned your $20,000 cash investment into a $100,000 profit.

- **Negative:** Real estate enjoyed a long run of steady appreciation from the mid-1990s through 2007, but if you were unable to make your loan payments and other financial obligations as a rental property owner, the economic downturn of 2008–2012 illustrated the negative potential of negative leverage. Negative leverage can wipe out your entire investment with a 20 percent decline in the market value of your rental property. So if you buy a rental home for $200,000, with $40,000 in cash and $160,000 from your bank, only to see the economy falter or the local real estate market sour, you may have to sell your rental home for less than your acquisition price. If you sell the home for $160,000 after the costs of sale, you may have just enough to pay off the bank, and your cash down payment of $40,000 evaporates. Unfortunately, negative leverage is the experience of many investors and homeowners who aggressively purchased real estate in the early to mid-2000s with little or no cash down and learned during the Great Recession (2008–2012) that their mortgage balance exceeded the current value of their property.

REMEMBER

Although you can purchase some rental properties without a down payment, keep in mind that you get what you pay for. The rental properties that are the best performers over the long run (high-occupancy units with stable, long-term tenants paying full-market-value rents and reasonable operating expenses) generally aren't available with creative financing.

Despite the occasional downturn in real estate nationally, people with an incredible amount of capital have sought to acquire rental real estate in many markets, even during the pandemic that started in 2020. Though opportunities always exist for patient and persistent investors, finding really good, well-located rental properties is competitive and challenging in many urban markets.

WARNING

In limited cases, you can reposition a poorly performing property in an essentially good neighborhood. Although these opportunities exist in some (generally rural) areas of the country, they're only for highly experienced real estate investors and property managers who have a high tolerance for risk. Don't invest in no-down-payment rental properties outside your own area or in a neighborhood you don't know extremely well. If you do, you'll likely be the next seller offering the property and may even be willing to pay someone to take it off your hands!

Rental real estate also offers you the opportunity to pay off your mortgage by using your tenants' money. If you're prudent in purchasing a well-located property in a stable area, you should have enough income to pay all the operating

expenses, utilities, maintenance, taxes, insurance, and debt service. Each month, your property becomes more valuable, while your tenant essentially pays all your expenses, including principal and interest payments on your loan.

REMEMBER

Your lender and tenant aren't the only ones who can help you with the purchase of your rental investment property. Even the government is willing to offer money to help your cash flow and encourage more investment in real estate. The government allows rental property owners to take a deduction (or offset to income) for depreciation on their income taxes each year. *Depreciation* isn't an actual out-of-pocket cash expense, but an accounting concept that provides you an allowance for expected wear and tear. Depreciation deductions reduce the taxable income from rental properties and give you more cash flow during your ownership. See Chapter 20 for an explanation of how depreciation can defer income taxes until you sell your rental property. The Tax Cuts and Jobs Act (TCJA) of 2017 also provided positive tax advantages for rental property owners, but with a major shift in politics in Washington, D.C., major changes in future tax regulations might wipe out most or all of the gains in the TCJA.

Over time, you may find that your rental income collections grow faster than your operating expenses. That's why many economists feel that real estate is a superior investment, because historically, real estate has been a very effective hedge against inflation. With the unprecedented increase in government spending over the past several years due to the pandemic and federal economic stimulus programs, the role of real estate in preserving the value in an inflationary environment is becoming a stronger driver for demand and much higher prices for all types of income-producing real estate. After your tenants finish paying your mortgage for you, you may suddenly find that you have a *positive* cash flow — in other words, that you're making a profit.

Eyeing the Unique Characteristics of a Good Manager

Good management equals good financial results. Having tenants who pay on time, stay for several years, and treat the property and their neighbors with respect is the key to profitable landlording. Finding those people is easier said than done, however. One of the greatest deterrents to financial independence through real estate investments is the fear of management and dealing with tenants, which is why management is so important. But what makes a good manager? The next several sections take a closer look at the many aspects of managing your own rental properties.

Realizing that good management makes a difference

To get a firm grasp on managing your residential rental property, you need to understand what good management is. Good management entails having a well-maintained rental property that's occupied by a paying tenant on a long-term lease who treats the property like their own. As with many things in life, managing well is much easier said than done, but by doing your homework and understanding what it takes to be a good manager, you can reduce beginners' mistakes.

Who hasn't heard about or even experienced horror stories about a greedy or downright unpleasant landlord who took advantage of their tenants? The image of rental property owners and managers as being overbearing, stingy, and snoopy has become part of the culture. You've probably also heard about tenants who don't pay their rent, damage the rental property, and harass the neighbors and owner. Virtually all of these horror stories are true, but it isn't a coincidence or bad luck that they happen to the same landlords again and again.

WARNING

Bad management can bring down a rental property investment — pure and simple. If you choose the wrong tenant or fail to address certain maintenance issues, your real estate investment may turn into a costly nightmare. You can be financially devastated when you have a mortgage to pay and your new tenant gives you a rubber check for the security deposit and first month's rent. To make matters even more challenging, you may find that your occupant skipped town after trashing your rental unit.

TIP

Fortunately, you can master good property management skills. Where do you start? Well, aside from this book, I encourage you to look into professional organizations that have qualified staff who can present educational offerings for property owners and managers. Here are three of the best of these organizations:

- Institute of Real Estate Management (IREM), `www.irem.org`
- National Apartment Association (NAA), `www.naahq.org`
- National Association of Residential Property Managers (NARPM), `www.narpm.org`

Separating your personal style from sound management

Owning and maintaining your home is good experience for many aspects of rental property management. You may be very handy at fixing leaky faucets and painting cabinets, for example, but owning a home doesn't give you all the skills needed to

become a successful residential rental property owner. The main difference you need to remember is that a rental property is an investment — nothing more, nothing less. Although in a perfect world, you'd find your rental property personally appealing, ultimately. it's just an income-producing investment.

In your own home, you're in full control of making sure that you have money to pay the debt service on the property, and you take a serious interest in addressing small maintenance problems while they're still low-cost items. As a homeowner, you also probably have experience in trying to live on a budget.

REMEMBER

When managing rental property, you must be able to put your personal tastes and style aside in favor of what keeps your tenants happy and your costs reasonable. Because you don't live in your rental property, you need to make sure that the furnishings and the property's condition appeal to the broadest number of potential renters, even if you'd rather decorate it like the Palace of Versailles. You also have to be practical, thinking about the long-term implications of your management decisions. You may prefer drapes for window coverings in your own home, for example, but cordless vertical blinds are more practical for a rental property. Although they may not be as luxurious as drapes, vertical blinds are more durable and much easier to clean, and a broken or bent individual slat is easy to replace.

Managing your time

For most rental property owners, managing rental units is a part-time job. They handle tenant calls, collect the rent, show the units, and even perform most maintenance in the early evenings or on weekends. Managing your time is an important part of managing your rental properties. It's about evaluating how much time you have and then looking for ways to streamline tasks so that you make the best use of your available hours.

WARNING

Although rental management can be a part-time job, don't be fooled: Making a success of it takes a lot of time, patience, and hard work. At first, most people assume that they're equipped to handle any and all property issues. They may even find they can manage two or three units without problems or time conflicts. They enjoy managing their rental properties and appreciate the savings. As their portfolio grows, however, they have to be even more efficient in handling management activities. The challenge of being a landlord is finding the time required for this second job.

TIP

The good news is that the time required to be a landlord is in your control. If you acquire sound properties and master the skills of marketing (see Chapter 7), tenant screening, and selection (see Chapter 11), you can greatly reduce the amount of time you spend managing your rental property. You also have to work smart; otherwise, you may find that your time is better spent in areas other than management, because time is money.

HOME-BUSINESS OPPORTUNITY

Many people who manage their own rental properties value being their own boss, and they often run their business from a home office. Many people are looking for an opportunity to work at home, and rental management can provide a second income with flexible hours. During the pandemic, many traditional office employees experienced the advantages and disadvantages of working from home. If you prefer working from home, owning and managing your own residential rental properties could just be the answer.

Or you may expand your real estate holdings to the point that you outgrow your home office or prefer to have a separate business location. Postal service centers and office suites can combine the best of a home office with the image of a professional operation. Also, many rental properties offer you the opportunity to have a small separate management office on-site.

Delegating management activities

As a landlord, you may look at all the tasks you have to do and get a bit overwhelmed. But dealing with some responsibilities yourself and delegating some to other people can make your job much easier. To manage your property to the best of your ability, look at your personal skill set to determine which tasks you can do and which ones you need to delegate.

Throughout this book, I tell you various ways that you can delegate certain management activities and responsibilities to a personal team of experts, composed of the following:

- **A property manager:** Ultimately, you can delegate all the management activities to a professional property manager. Having a property manager doesn't mean you're totally off the hook, however. Depending on your arrangement with your property manager, you may still find yourself providing the oversight and approvals that allow you to materially participate at an ownership level — an arrangement that has income tax advantages and also gives you the peace of mind of knowing that your rental property is well managed. (See Chapter 3 for more on using a property manager.)
- **A maintenance professional:** The skills required to manage your own rental properties are different from the skills you need to handle your own property maintenance. Most rental property owners find that using trusted and reasonably priced vendors, suppliers, and contractors is the best alternative. You may not have the requisite skills, equipment, or time to do the work properly and quickly, and you certainly will have to acquire the right parts and supplies.

REMEMBER

Although doing the work yourself may seem to be cost-effective, you'll quickly lose any savings if the rental unit sits vacant for additional time. (See Chapter 17 for help on finding the right maintenance personnel.)

TRUE STORY

A client once hired me to manage a 100-unit rental property with nearly 30 vacant units. The rental market was pretty good, and we knew that we could rent the units after they'd been painted and cleaned, and after all minor maintenance items were addressed. The owner had always managed the property personally and used only in-house maintenance personnel for all work, including painting. The owner wanted to have the in-house maintenance person paint two units per week, but it would take nearly four months for all the units to be rent-ready. I was able to demonstrate that hiring an outside contractor to paint and having the in-house maintenance folks focus on only minor maintenance and cleaning would get all 30 units rent-ready in less than a month. Even though the painting contractor was an expense the owner didn't want to incur, hiring the contractor was the better way to go, because we were able to rent the units quickly and more than cover the additional costs. Sometimes, the cheapest way isn't the best way to solve a problem.

- **An accountant:** Many owners don't have the patience or discipline to keep the accurate accounting records that are so important at tax time, so they prefer to have a bookkeeper take care of the record-keeping and help them manage their bills. See Chapter 21 for more information on accounting.
- **A legal expert:** Some landlords may look forward to their day in court, but most find the experience to be unrewarding and problematic. Using a local attorney who specializes in landlord–tenant legal matters is an excellent idea when you have legal issues that may end up in court. A really good attorney will help you stay out of court, which should always be your goal.
- **A prescreened applicant source:** Some owners use an online rental housing marketing source, a local rental locator service, or certain real estate brokers in your area who seem to have a steady stream of potential renters to provide prescreened rental applicants. Your level of delegation on this matter may very well depend on whether you own one or ten rental units.

Knowing that your style is unique

The most important fact to remember is that no one will ever manage your rental property like you will. Accept that fact and then determine whether you're cut out for property management. Remember that property management isn't just a question of style. Ultimately, it comes down to sound, responsible practices applied equally for all your tenants.

REMEMBER

You're motivated more than anyone else to watch out for your real estate investments. Only you would work through the night painting your rental unit for the new tenant who's arriving in the morning. Who else would spend a Hawaii vacation looking through the local newspaper classifieds or local rental ad books for creative ad ideas?

Be honest with yourself. Know your strengths and weaknesses as a property manager. You may find that you're able to do the job but wind up with frazzled nerves and doubts. If you aren't truly excited and challenged by handling your own property management tasks, you probably won't have success managing your own property over the long run, and you may need to delegate (refer to "Delegating management activities" earlier in this chapter).

Being Honest with Yourself about Your Skills and Experience

One of the first steps in determining whether to manage your rental property on your own or delegate some or all of the duties is analyzing your skills and experience. Many successful property owners find that they're better suited to deal-making than to problem-solving and endlessly interacting with people, so they leave day-to-day management to someone else.

This decision is a personal one, but you can make it more easily by thinking about some of the specifics of managing property. Property management requires basic skills, including marketing, management, accounting, and people skills. You don't need a college degree or a lot of experience to get started, and you're sure to pick up all kinds of ideas about how to do things better along the way.

Examine your own personality. Are you a people person? Serving as a landlord is a labor of love; you must love people, you must love working with your hands, and you must love solving problems. Most of all, you must be able to do all these things without getting much back in the way of appreciation.

Whether you're confident that you have what it takes to be a good rental property manager or are still not sure, take stock of yourself and your abilities by answering the following questions. Interview yourself as though you were a job applicant. Ask yourself these tough questions, and (more important) answer them honestly:

- Are you a people person who enjoys working with others?
- Can you keep your emotions in check and out of your business decisions?

- Are you a patient and reasonably tolerant person?
- Do you have the temperament to handle problems and respond to complaints and service requests in a positive, rational manner?
- Are you well organized in your daily routine?
- Do you have strong time-management skills?
- Are you computer-literate?
- Are you meticulous about your paperwork?
- Can you write well enough to communicate effectively?
- Do you have basic accounting skills?
- Do you have maintenance and repair abilities?
- Are you willing to work and receive phone calls, emails, or texts on evenings and weekends?
- Do you have sales skills? Can you be creative in attracting rental applicants?
- Are you a good negotiator?
- Are you willing to commit the time and effort required to determine the right rent for your rental unit?
- Will you be persistent in collecting the rent?
- Are you familiar with (or willing to find out) about the ever-changing laws that affect property management in your area?
- Are you able and willing to visit your residential rental property regularly?
- Are you willing to enforce all property rules and rental policies consistently and fairly?
- Are you interested in finding out more about property management?
- Are you willing to make the commitment to be your own property manager?

Ideally, you answered each question with "yes." This assessment isn't scientific, of course, but it does raise some important issues, particularly the level of commitment that you need to succeed as a residential rental property manager.

You need to be fair, firm, and friendly to all rental prospects and tenants. Treat everyone impartially, and remain patient and calm under stress. Be determined and unemotional in enforcing rent collection and your policies and rules. Maintain a positive attitude through it all. The job isn't as simple as it seems, is it?

Even if you didn't answer all the questions in this section with an enthusiastic "yes," you may still make a good rental property manager if you're prepared to be flexible and to learn from your property management experiences. Some of the best property managers graduated from the school of hard knocks.

TIP

If your assessment revealed that your skills may be better used for something other than managing your own property, see Chapter 3 for some alternatives. Owning rental property can still be a great investment, even if you don't manage it yourself.

WARNING

If you're impatient or easily manipulated, you aren't suited to be a property manager. Conveying a professional demeanor to your tenants is important, because you want them to see you as someone who'll take responsibility for the rental property's condition. You must also insist that tenants live up to their part of the deal; pay their rent regularly; and refrain from causing unreasonable wear, tear, or damage to your property. If you don't like confrontation, managing your own rental property may not be the wisest choice.

IN THIS CHAPTER

- Assessing the pros and cons of residential property self-management
- Understanding the benefits of working with a pro
- Knowing what to look for in a property management firm

Chapter 3

Managing Your Residential Property Yourself or Hiring a Pro

The late-night cable and online real estate gurus can make real estate investing sound so simple. But a prime location at the right price isn't all you need. The other key to success in real estate is having a well-managed property.

Initially, you may try to manage your residential rental property yourself, particularly if you have a single-family rental home or condo or even a small, multifamily rental property such as a duplex, triplex, or fourplex. That's why I spend time in this chapter guiding you through the pros and cons of managing your own property (as opposed to hiring a pro to do it for you).

If you're like most owners, though, at some point you'll consider hiring a professional property management firm, which is why I also give you some tools for evaluating property management companies, from the services they offer to the fees they charge. I explain the importance of the big three traits to look for — experience, qualifications, and credentials — and reveal some of the common tricks management companies use to generate additional income that aren't in your best interest.

REMEMBER

Deciding how your rental property is managed is one of the most important decisions you'll make as a residential rental property owner, so take the time to look at all your options.

Managing Your Rental Yourself

With your first rental, you'll probably do all the work yourself: painting, cleaning, making repairs, advertising, fielding all inquiries, showing the unit, screening the applicants, completing all the paperwork, collecting rent, handling any complaints or concerns, and paying bills. This scenario certainly has its advantages, but it has its disadvantages too. Use the information in the following sections to help you decide whether you want to go it alone or hire a pro. (If you decide to do the latter, check out "Exploring Professional Management" later in this chapter for the scoop on working with a professional management company.)

The advantages

If you have the right traits for managing property (see Chapter 2 to help determine whether you do), if you have the time, and if you live reasonably close to your property, you should definitely manage it yourself. Here are some advantages of keeping direct control of the management of your rental property:

- **You save on a monthly management fee.** If you purchase a single-family rental home or condo as an investment property, you most likely won't be able to generate enough money to pay for a professional property manager and make a profit — at least not right away.
- **You save on maintenance costs.** *You* decide who does the repair work and who mows the lawn. Doing your own maintenance or yard work is usually a good idea; if you hire someone else to do it for you, the cost can devour your monthly cash flow in a hurry.
- **No one cares as much about your investment as you do.** *You* are always going to be the one who's most dedicated to achieving the best results from your rental investment efforts. Property managers are professionals, but their retirement and future wealth aren't riding on the success of your investment.

TIP

Even if you hire someone to manage your property, you may be better off choosing the maintenance contractors yourself than turning over the decision — and your money — to a professional property management firm. Some management companies have related companies or get referral fees from their select vendors; thus, you pay higher charges than you would if you'd hired the same contractors

directly. A limited number of professional and ethical property managers can offer recommendations, however, and they don't use maintenance and repairs as a hidden profit-center. Either way, develop a list of reliable and insured fix-it and landscape personnel who do good work and charge reasonable rates.

The drawbacks

If you're just starting in the world of property management, you may be thinking of it as a part-time venture — something you'll do in addition to your day job. After all, rent collection is just once per month, and what else could possibly be required? If that sounds like you, be sure to check out the following list of the cons of self-managing rental property:

- **You can damage or interfere with your day job.** If you're a higher-income, full-time professional, rushing off on weekdays to handle some minor crisis at your rental unit is not only impractical, but can also be downright damaging to your career. Most employers or clients have little tolerance for your need to handle the responsibilities of rental-property ownership, particularly when the demands are often unpredictable and unscheduled.
- **You can spend far too much time.** If you earn your living from something other than managing your rental property, managing that property may not be worth your valuable time. Rental management can take up more time than you anticipate, especially if you buy additional properties. Remember that residential property management often requires working in the evenings and on weekends, when most prospective tenants want to see your vacant rental units and when current tenants are home to allow access for repairs. Also, maintenance issues, such as plumbing backups or no electricity, seem to occur when you have finally left town for a long-overdue vacation. Property management is a 24-hour/7 days per week/365 days per year commitment that has zero respect for your personal schedule.
- **You run the risk of increased liability.** If you're a part-time property manager, you may not keep abreast of the latest laws or issues affecting the rental housing industry. Just one lawsuit over a situation that you handled improperly can quickly turn your dream of retiring early into the year's next big horror flick. Many new residential rental unit owners underestimate how detailed and complicated property management has become, as every year, new laws protect tenants from unscrupulous landlords (who unfortunately do exist). I highly recommend that you add *Landlord's Legal Kit For Dummies* (John Wiley & Sons, Inc.) to your personal property management library.

TIP

As a jobholder, look at your annual income, and figure out approximately what you earn per hour. Then do the same for the cash you're saving by managing your own property. Unless your management efforts produce significant cash savings compared with your job, you may be better off hiring a professional property manager. The same guideline holds true even if you're an independent business owner or self-employed. Your schedule may be more flexible than the typical fixed workday of a 9-to-5 employee. But if you earn $50 an hour as a consultant, devoting hours of your productive work time to managing rental units, which may amount to a savings of only $25 an hour, may not make sense. Also, remember that the management fee is a deductible expense, whereas the value of your own time isn't.

The distance factor

If you own rental property in another city or state, you may initially consider managing your unit from afar. As long as your tenants have lengthy tenancies (giving you minimal tenant turnover), faithfully mail their rent checks, and make only a few maintenance demands, this arrangement can work — but it's a fragile one. When looking at the cost for a property manager, you might want to know the time requirements and travel costs for even a single unplanned trip to your rental property. One major problem or a few minor ones can turn the job of managing the property into a nightmare.

REMEMBER

Many real estate investors are attracted to the prospects of higher returns by purchasing out-of-state rental properties. But even with lower acquisition costs and supposedly decent rents, many of these investment opportunities are too thin to allow for hiring a local professional property manager. Consequently, long-distance property management becomes tempting. My strong advice is to think twice about handling your own residential rental property management and maintenance from hundreds of miles away. You, or someone you trust, need to be in the immediate area to routinely inspect and maintain a residential rental property, especially when an unexpected vacancy, roof leak, or broken pipe demands urgent attention.

Exploring Professional Management

Property management companies typically accept responsibility for all operations of the property, including exterior or common-area maintenance, preparation of rental units, marketing, showing the property, setting rents and security deposits, tenant selection, rent collection, maintenance, and accounting.

Many rental property owners who are just starting out drift blindly into self-management by default because they assume that they can't afford a management company. Others simply don't want to give up part of their profit; "Why pay someone to manage my rental property when I can keep the money myself?" is a common refrain. Other owners would prefer to hire a professional management company, but they've heard so many horror stories that they don't know whom to trust. Many of their concerns are real; some property managers mismanage properties and lack any semblance of ethics.

Luckily, you can avoid hiring the wrong management company by following my advice on how to choose a good property manager. The following sections touch on some important points for you to consider if you're contemplating using a professional management company.

Eyeing the pros and cons of using a pro

The pros of using management firms are many. Namely, these firms

- Have the expertise and experience to manage residential rental property.
- Stay up to date on federal, state, and local laws — plus such liability issues as mold and fair-housing policies — so you don't have to.
- Are fair, firm, and friendly with tenants.
- Have screening procedures and typically can evaluate potential tenants more objectively than you can.
- Handle property management issues throughout the day and have staffing for after-hour emergencies.
- Have contacts and preferential pricing with many qualified, licensed, and insured suppliers and vendors who can get work done quickly and efficiently.
- Handle all bookkeeping, including rent collection.
- Have well-established rent collection policies and procedures to follow when tenants' rent is late.
- Have an online presence, with websites that provide detailed information and photos of all their available rental properties.
- Handle all aspects of hiring employees so you don't have to process time sheets, calculate and submit payroll, generate paychecks, or oversee all the legal requirements that come from having employees.
- Can be excellent sources for purchasing additional income properties because they're often the first to know when their current clients want to sell.

Management companies have numerous downsides as well, of course:

- Using a management company for small residential rental properties that you've recently acquired may not be cost-effective because the management fees can run up to 10 percent or more of your gross income, including leasing fees.
- Some smaller companies may not be technologically advanced and aren't able to offer the variety of online services that tenants expect, such as rental applications to prospective tenants, electronic rent payments, and maintenance requests for current tenants. (Many companies now have property management software that provides an online portal where tenants can access a wide variety of services and information.)
- Some companies have in-house maintenance personnel or affiliated contractors or vendors that charge markups or surcharges on supplies and materials, as well as increased labor costs. For some management companies, these hidden profit centers are highly lucrative. They will lowball the property management fee just so they can add more clients (especially owners with older properties) and then perform expensive maintenance and repairs, which is where they make their money.
- They often don't have the same care, consideration, and concern for the rental property that you have. You need to contact their current clients to make sure that your proposed property management company has an established track record of treating tenants with respect and putting their clients' interests first.
- They often charge extra (a *leasing fee*) to fill vacancies or take longer to fill the spots if they're dealing with several other vacancies at the same time.
- Despite the technological advances that are available with the latest property management software, some companies require tenants to drive to their offices to apply for the rental, to pay rent, or to request maintenance, which can be a disadvantage if the company isn't located close to the rental property.
- They may not be diligent in collecting delinquent rent, particularly if the management contract provides that they keep all late fees and other administrative charges — another hidden profit center for management companies that is not in the best interest of the property owner.
- Some companies may try to falsely impress you with low maintenance expenses when they're not spending enough on repairs and maintenance to maintain the property properly. Every property is unique, and there are no "average maintenance costs," so don't be fooled by very low maintenance expenses at a new property when you're looking for a property manager for the 70-year-old house your grandma left you.

- Management companies affiliated with "for sale" real estate brokerages may be more interested in a large real estate commission from a sale and may not provide the best property management services. The majority of property-management lawsuits I have seen are against major real estate brokerages that primarily make money representing clients who are buying and selling real estate but want to keep a relationship with the homeowner (with the goal of a future sales commission) by having an inexperienced and unqualified person offer property management services. Look for a management company that only manages property; then use a real estate brokerage firm that specializes in real estate sales to help you with your next purchase or sale.

Understanding what a good property manager does

Professional property managers normally handle a wide range of duties. If you hire a full-service management company, you typically get the following services:

- Performance of rental market surveys and advice on setting the rental rate and security deposit
- Preparation, advertisement, and showing of the rental unit
- Tenant screening, selection, and handling tenant move-in, including documenting in writing the pre-move-in inspection
- Preparation of leases or rental agreements and all legal forms
- Property physical and/or visual drive-by inspection periodically as agreed
- Collecting rent, making bank deposits, and paying bills (including mortgage, property taxes, and insurance if the owner doesn't pay them directly)
- Preparation of regular monthly accounting reports
- Quality repair and maintenance of the rental unit
- Timely response to tenant complaints and/or maintenance requests
- Enforcement of the rules and regulations and compliance with laws

TIP

Although I usually recommend full-service management, you can pay for only the items that tickle your taste buds instead of shelling out for the full-course menu by working with more limited or à la carte management services. Maybe you need help only with the rental of your property and are willing to pay a leasing fee, or perhaps you want a property manager who charges a small fee to cover basic rent collection and accounting services and not much more.

Telling the good from the bad

A good management company may be able to operate your rental properties better and more efficiently than you can on your own. Its superior knowledge and experience can result in lower costs, higher rents, better residents, and a well-maintained property. A good management company more than pays for its costs, giving you more time to take up additional properties or other pursuits. A poor management company can cut into your profits through fees, improper maintenance, or poor-quality tenants who run your property into the ground. A bad property manager can leave you in worse shape than if you'd never hired one in the first place.

The right property manager can make a big difference in the cash flow your rental unit generates because they find good replacement tenants quickly or make sure that maintenance is done in a timely manner without breaking your budget. You need a property manager who's committed to helping you get the optimum results from your rentals. The following sections help identify what to think about when searching for a management company and what to ask potential managers so you can find the right fit.

REMEMBER

A good property manager always remembers that the rental property belongs to the owner, not to the property manager. That means they should seek your input so you can work together to formulate a property management plan that achieves your personal investment goals.

Finding the right management company for you

You want to find a property management company that suits you. Size isn't the only determining factor in whether a property manager can deliver quality service. Some management companies specialize in large rental projects, whereas small operations may focus on individual home rentals and apartment buildings with only a few units. Don't assume that a big company that manages mega-complexes will do the best job for your duplex or that a small company has the credentials, experience, and knowledge you need for your larger property. Try to find property managers who are active in the area and who specialize in your type and size of rental property.

Keep the following tips in mind to select the management company that best fits you and your property:

- **Make sure that the firm you hire manages property exclusively.** This guideline is particularly important when you're selecting a management company for a single-family home, condo, or very small rental property. Many traditional real estate sales offices (as opposed to property management firms) offer property management services, but property management is often a *loss leader,* meaning that it costs more for the real estate office to

manage your property than it's charging you for that service, because it's hoping to get your business when you're ready to sell the property. Many property managers in real estate sales offices don't have the same credentials, experience, and expertise as employees of property management firms. The skills required to represent clients in *selling* property are entirely different from the skills required in *managing* property. You can always hire a firm that sells only real estate when the time comes to sell your rental property.

- **Verify that the property manager and the management company have current licenses that are in good standing.** You can call or go online to double-check. Most states require property managers to have a real estate license and/or a property manager's license. Simply holding a license doesn't ensure exceptional service, but it does show that the property manager is motivated enough to comply with state law.

WARNING

The pandemic contributed to a recent significant rise in unemployment, which led to increases in the number of unlicensed people offering their services as property managers. Often, they may be managing properties that they partially own themselves and are exempt from state licensing laws, but they're breaking the law in most states if they manage a rental property that they don't own. Working with one of these people can lead to serious liability for you if a problem arises and it turns out that you used an unlicensed property manager. Always, *always* make sure that the property manager you're considering has a current license, designations/certifications, and proper insurance coverage.

- **Examine the property manager's credentials.** The Institute of Real Estate Management (IREM) provides professional designations and certifications, including the Certified Property Manager (CPM) designation and the Accredited Residential Manager (ARM) certification. A select group of management firms have earned the Accredited Management Organization (AMO) accreditation. These designations and certifications signify excellence and dedication. Go online to `www.wiley.com/go/propertymanagementkitfd4e` for a full overview of IREM's professional credentials and designations.
- **Confirm that the company is properly insured.** The management company should carry insurance for general liability, automobile liability (owned and non-owned), workers' compensation, and professional liability. The company is your agent and will collect your rents and security deposits, so it should have a fidelity bond to protect you in case an employee embezzles or mishandles your money.
- **Ensure that the company has separate bank trust accounts for each client.** State licensing agencies perform detailed accounting and bank record audits upon receiving complaints, but they also perform routine audits. The most common scenario involves finding missing or commingled client funds when property managers use a master trust account (a single bank account

for multiple unrelated clients). Although this practice is legal in most states, look for a company that has a separate bank account for each client and can offer separate accounting for each property it manages.

WARNING

Even though it is widely known that single master trust bank accounts can easily result in unintentional commingling or have trust fund shortages, many property managers use such accounts for all their managed properties to minimize their bank charges. Avoid any property management company that follows this practice, because the risk is not worth the savings of a monthly bank account charge. Typically, property management companies don't pass these bank fees on to their clients, so there is no reason not to insist that your property manager keep all your funds in a separate bank trust account exclusively for your rental properties.

- **Check references, particularly the company's other clients.** Don't sign a management contract until you feel confident that the company you hire has a sound track record. Checking with the company's chosen referrals isn't enough; also ask for a list of all its current and past clients, and contact the ones with rental properties similar in size and type to your own. Make certain that the rental owners you contact have been with the company long enough to have a meaningful opinion of the quality of the service and are truly unbiased.

The quality of your property management company directly affects the success of your real estate investments and your peace of mind. Visit the company's office prepared to discuss these important questions:

- Can you give me a breakdown or list of what management services you provide and a breakdown of management fees/costs?
- Is your firm an AMO recognized by IREM?
- Is your firm an active member in good standing with a local affiliate of the National Apartment Association (NAA), and does it hold any NAA designations?
- Is your firm an active member in good standing with the National Association of Residential Property Managers (NARPM), and do any of its property managers hold NARPM designations?
- Are your legally required state and/or local licenses current and without any history of violations?
- Do you carry errors and omissions coverage of at least $500,000, plus general liability coverage of at least $2 million?
- Do you have a $500,000 fidelity bond and a forgery and alterations policy of at least $25,000 for all employees?
- Do you have separate bank trust accounts for each client rather than a single master trust bank account containing multiple owners' funds?

- Can you communicate via email with your clients, your contractors/suppliers, and your tenants to be responsive and efficient, providing excellent customer service?
- Do you retain copies of all written communications and maintenance or service requests in case a tenant were to file a claim or lawsuit, so that you can prove in court that you responded in a timely and proper manner?
- Can you explain your methods of advertising or generating interest in my rental property and of selecting tenants in compliance with all fair-housing laws?
- How do you screen prospective tenants? Do you use an outside firm? Who pays for the service, and how much does it cost?
- Do all funds that you collect from applicant screening fees, tenant late charges, and other administrative charges go directly to the owner, not the manager?
- Do you provide 24/7/365 on-call maintenance services through a live person who answers the calls and also has email capability?
- Whether you provide maintenance in-house or use an affiliated firm, do you charge only the actual cost of labor and materials, without any surcharges, markups, administrative fees, and other such add-ons?
- Do you pass along any volume-purchasing discounts fully and directly to clients for appliances, carpeting, and other items, without any markups?
- If allowed by law, do you give all employees screenings that include thorough credit and criminal-record background checks by an independent employment screening consultant, as well as drug and alcohol testing by a certified lab?
- Can I contact several of your current and former clients who own rental properties that are similar in type, size, and location to mine?

If at all possible, also try to secure a meeting with the person who would have control of the day-to-day, hands-on management of your property so that you can ask these questions:

- How many years have you been in the property management business? Do you manage real estate exclusively?
- What are your qualifications? Do you hold IREM's CPM or ARM certification? Do you hold NARPM designations such as Residential Management Professional (RMP) or Master Property Manager (MPM)? Have you earned NAA credentials such as Certified Apartment Manager (CAM) or Certificate for Apartment Maintenance Technician (CAMT)?
- How many other properties does your company manage? How many properties does the manager assigned to my rental property manage? Where are these properties located? Can I contact any of your current clients as references?

REMEMBER

When you hire outside property managers, treat them as valued members of your management team, but be sure that they know you're the team manager and understand your long-term goals. If you're looking for appreciation and preservation of your rental property's value, make sure that the company keeps your property in great condition and looks for stable, long-term tenants rather than premium rent from short-term rentals. The manager should ask before spending significant amounts of your money, of course, and they should keep you informed on a regular basis.

Compensating your property manager

Management companies are compensated in a variety of ways, and the types of fees and typical compensation vary widely throughout the country. In addition to a percentage or flat monthly fee, a firm may charge leasing fees, as well as fees for copies, postage, reports, court appearances, coordinating maintenance, getting bids, supervising capital improvements, and so on. Ask about these extra fees, and make sure that you fully understand the compensation of your property manager. But never evaluate the management company based on the management fee alone as a management company that competes on the lowest fees while certainly take shortcuts or assign way too many properties to each property manager, as the costs and overhead of a top property management firm are high.

WATCH THOSE REPAIR BILLS!

Most management contracts contain clauses that allow property management companies to perform emergency repairs up to a specified dollar amount without advance approval from the owner. This clause allows the company to take care of problems that occur unexpectedly. When you're in the early stages of working with a new management company, make sure that you monitor its expenses closely. Even though it may have the legal right to use funds up to a certain amount, the company should always keep you informed. "No surprises" is one of my favorite sayings!

Repairs serve as a profit center for many management companies. They may offer very low property management fees, knowing that they'll make them up through markups on repairs, and often, the repairs aren't necessary. Look for a property management firm that doesn't mark up materials, supplies, or maintenance labor, or one whose fees for such work you consider to be fair and equitable.

Discovering how property management companies charge

The typical professional management fees for single-family homes and individual rental condominiums are 8 to 10 percent of the collected income, with an additional fee earned each time the unit is rented. The rental fee can be a flat fee that ranges from $250 to $500 or a percentage of the monthly rental rate, such as 50 to 100 percent. If the rental home or condo has a high rental value, the management fee is often lower, in the range of 6 to 8 percent.

REMEMBER

When a property manager considers how much to charge you, they typically look at the following pieces of information:

- **The amount of time required to manage the property:** An experienced property management company owner knows the average number of hours the property manager, accounting staff members, and other support personnel will spend each month on managing your property. Then the company calculates a management fee schedule that should generate the fees necessary to provide the resources to manage your rental units properly and effectively. If you have large rental properties, management fees typically don't include the services of an on-site manager, superintendent/maintenance technician, or caretaker; these employees are paid separately and are always an owner expense.
- **The size, location, condition, and expected rental collections of the property:** Generally, the larger the rental property, the lower the management fee as a percentage of collected income. Fees vary by geographic area and by the income potential of the rental unit, with a higher-end rental property commanding a lower-percentage management fee. For certain properties that may be difficult to manage, the company may have higher management fees or additional charges for certain types of services or for a certain period of time. Management companies may also propose charging a minimum monthly management fee or a percentage fee (opting for whichever of the two is greater). A property that's in poor physical condition and needs extensive repairs and renovations, for example, requires the property manager to spend extra time supervising the improvements. This additional time requires additional compensation for the property manager.

Try to find a company with a management fee that's a percentage of the collected income. This kind of fee strongly motivates the company to keep rents at market rate and collect them on time.

WARNING

Never pay a management fee based on the potential income of a rental unit — only on actual collected income. The potential income is not as important as the collected income. You want your property manager to only get paid when you receive income.

Structuring compensation

Your management company's compensation can be affected by more than just the standard considerations mentioned in the preceding section. Knowing how to look beyond the basics can save you money in the long run and make your management company work for you and your investment.

Make sure that your property manager is compensated in a way that incentivizes or motivates them to keep your rental property occupied by a stable, long-term tenant who treats your rental property as their home, respects their neighbors, and pays a market rent in a timely manner. Structure the compensation so that the management company has an incentive to get the property leased up (all vacant units filled) as soon as possible. When you're analyzing your property manager's compensation fees, keep these tidbits in mind:

- **Watch out for management fees that seem to be too low.** The adages "You get what you pay for" and "If it's too good to be true, it probably is" come to mind. Management fees that seem to be too low are a good indication that the property managers are spread too thin and may not manage your property properly. Poor management can result in unhappy tenants, which leads to higher turnover and longer periods of vacancy without rental income.
- **Understand that leasing fees are often justified and usually not negotiated.** The most time-intensive portion of property management is tenant turnover. When one tenant leaves, the property manager must make the unit rent-ready; then they must advertise, field multiple inquiries, show the property, and screen the prospective tenants. Leasing fees may vary, but you can usually expect either a flat fee of several hundred dollars or a percentage of the rent, such as half or all of the monthly rental amount.

Making sense of management agreements

The management agreement is a pivotal document that spells out the obligations of the property management company to you, the client. Be sure to study the fine print, which is tedious but necessary to avoid unpleasant surprises. Even the management agreements available through state and national real estate organizations can contain clauses that are clearly one-sided in favor of the management company.

Many management agreements, for example, call for the property manager to collect and keep all the income from applicant screening fees, late charges, or returned check charges. Some agreements provide that the management fee must be paid even on any payments received from insurance companies as settlement for claims for property damage. Property managers justify this policy on the basis

that they incur additional time and costs in handling such situations. But these fees should belong to you because you want to give the property manager a financial incentive to fill your unit with a tenant who pays rent on time and cares for the property. A management fee based on actual rents collected is a better arrangement.

The following are some nuggets that may be hidden in the fine print of your management agreement and how to protect your investment:

- **The "no management fee charged when the unit is vacant between tenants" line:** Although this arrangement seems to save you money, especially when rental revenue isn't coming in, the property manager can rush to fill the vacancy without screening tenants properly — and a destructive tenant can be worse than no tenant in the long run. It's better to have a minimum fee that covers ongoing costs for the property manager to offer services and make periodic inspections, because vacant rental units can be more susceptible to damage than occupied properties. Most insurance companies have the right to cancel policies if the rental unit remains vacant for an extended period, as they have learned that a pipe break in a vacant unit can cause a lot of damage.
- **The hold-harmless clause:** This clause protects the property manager from liability for their own errors in judgment or the mistakes of the workers the firm sends to your rental unit. One solution is to include a reasonable-care provision so that the property manager is motivated to be diligent in their management and avoid workers whom they know have had problems in the past. Your agreement should also mention such obvious requirements as informing you of what's happening with your rental property.
- **The long-term management contract request:** Some property management companies request long-term management contracts that can't be canceled or can be canceled only for cause. Avoid signing any contract that can't be canceled by either party with or without cause upon 30 days' written notice. A company that knows it's only as good as its most recent month's performance will stay motivated to treat your property with the time and attention needed to get top results. But the company can make a reasonable argument that it needs a minimum term to amortize the significant time and cost of taking over a property. So rather than agree to a long-term, noncancelable agreement, I suggest that you negotiate an early-termination fee that's waived after a certain number of months (typically, a year).
- **The confusing-language trick:** If the property manager won't agree to reasonable clarifications of the contract language or a complete list of the services provided for their fee, they may not go out of their way to help you later. Consider this refusal to be a warning sign, and find a property management company that is willing to accept your reasonable terms.

- **The "I'll use my own agreement that suits my best interests" maneuver:** Many property managers use their own in-house proprietary agreements, which are written strictly in the best interests of the property management company. Be sure to have your attorney review this agreement very early in the discussions with your potential property manager, and/or propose using an industry-standard management agreement from IREM or a local or state affiliate of the National Association of Realtors.

TIP

I provide a sample Residential Management Agreement from IREM online `www.wiley.com/go/propertymanagementkitfd4e`. Use this sample to familiarize yourself with such contracts.

Being aware of the tax consequences

As a rental property owner, you're running a business and must file Schedule E with your federal tax return. The tax laws allow your rental housing business to deduct all operating expenses, including the costs of advertising, maintenance, payroll, insurance, property taxes, and management fees, whether those expenses are paid to yourself or a property management firm. Note: Federal and state tax codes change from year to year, so discuss your tax situation with your accountant or tax preparer in advance. The Internal Revenue Service (IRS) and state taxing authorities will also be expecting you to declare any income you may have paid yourself as a property manager.

Although your expenses are deductible, they erode the net income from your property. If your annual expenses are greater than your rent revenue, you may find that you can use those losses to ease the tax burden from your full-time job or other sources of income unrelated to your rental property. But a loss is a loss, and trying to keep your rental property in the black is still a good idea, even if you have to pay some taxes on the income.

The IRS's passive-loss rule states that all real estate rental activities must be treated as passive, with an exception that some taxpayers are allowed up to a $25,000 annual deduction, with this deduction being phased out as the taxpayer's reported income increases. There is also some limited ability to carry-back or carry-forward unused losses if the rental property owner meets certain criteria. A net operating loss (NOL) allows a rental owner to apply any unused NOL to a previous year's tax return for an immediate refund of previous taxes paid. Although a tax-loss carry-forward applies a tax loss to future years' tax returns, again it is subject to limitations or phasing out of the deduction based on the rental property owner's overall reported income.

Real estate investors who can be classified as *real estate professionals*, however, are permitted to deduct all their rental real estate losses from their ordinary income, such as current employment income (wages and commissions), interest, short-term capital gains, and nonqualified dividends. See Chapter 20 for more information on whether you meet the stringent IRS requirements to qualify as a real estate professional. If you do, you have a significant advantage that makes real estate investing more lucrative. Check out *Real Estate Investing For Dummies*, 4th Edition (John Wiley & Sons, Inc.), for the latest information on the tax advantages for real estate investors in the 2017 Tax Cuts and Jobs Act (TCJA).

TIP

Even though federal real estate taxation laws consider most real estate activities to be passive rather than active investments, definite tax advantages exist for owners who are actively involved in the management of their rental properties. The definition of *actively involved* allows you to hire a property management firm and still take advantage of the tax write-offs available for rental income property as long as you're involved in setting the rents and policies for the property. Be prepared to show the IRS or state income taxing authority written proof that you were involved with any such day-to-day decisions made in conjunction with your property manager.

IN THIS CHAPTER

- Getting copies of important documents before the deal is final
- Helping existing tenants through the transition process

Chapter 4
Taking Over the Property

Sometime during the process of thinking about investing in residential rental property, you may have considered acquiring a property already occupied by tenants. Or maybe you just found out that your dear old Aunt Beatrice left you an occupied rental property in her will. On the surface, these opportunities seem to be positive because you don't have to advertise and select tenants yourself — at least not right off the bat. But just how positive an experience you have taking over an occupied rental property depends on the quality of your tenants. Some real estate investors prefer to acquire vacant properties so they can renovate and upgrade the rental property and select their own tenants.

This chapter focuses on some of the important issues involved in taking over rental property, whether you're purchasing a property or you've inadvertently become the proud owner of one. Here, you find out how to begin the all-important task of implementing your own policies and procedures with the existing tenants, who may be living under an entirely different set of rules. The proper procedures for taking over a rental property actually begin before you're legally the new owner. Ensuring that your transition goes smoothly requires some know-how, and in this chapter, I give you exactly that.

For more information on rental property acquisitions, proper due-diligence steps, property inspections, and renegotiating the deal or seeking credits in escrow, plus ideas on how to hold title to your rental properties, check out *Real Estate Investing For Dummies*, 4th Edition, by Eric Tyson and myself (John Wiley & Sons, Inc.).

Knowing What to Get Up Front

If you're thinking about buying a residential rental property, you need to start by thoroughly investigating all aspects of it and its current tenants, if any. After all, no one is going to represent your interests as well as you.

The formal *due-diligence period* (between the acceptance of an offer and the close of escrow or completion of the sale, is the time to ask tough questions and make sure that you verify everything you have been told and are counting on getting in writing. (*Escrow* is an account for funds and documents held by a neutral third party in a real estate transfer until all the conditions have been met, per the written instructions of the seller and buyer.) Don't be shy. To be sure that you know what you're getting, talk to the tenants; the neighbors; any homeowners' association; local government agencies, including law enforcement and any rent-control board or similar organization; and the property's contractors or suppliers. Search the web for public information such as code violations, police reports, and registered-sex-offender tenants. When you're in this situation, remember my favorite motto: *no surprises.*

REMEMBER

Don't underestimate the importance of this step. This review of the books and records, along with the physical inspection, reveals the actual operations of the property and allows you to determine whether the property is suitable, fairly priced, and meets your financial goals. When the property sale is complete, it's too late to ask the seller to fix the leaky roof unless they engaged in an intentional effort to cover up the true condition of the property. Your remedies may come only in court, which can be costly and reserved only for the most serious or expensive issues.

Most sellers are honest and don't intentionally withhold information or fail to disclose important facts. But the adage "Buyer beware" rings particularly true in the purchase of residential rental real estate. Resolving questions and issues now through regular communication with your seller eliminates some very unpleasant and possibly contentious disagreements with your tenants in the future.

REMEMBER

The due-diligence period may be your best or only opportunity to seek adjustments if the seller misrepresents any important issues. What if you weren't aware that this property is subject to onerous rent-control limitations? When you sign your name on the dotted line, the deal's done. You can't go back and ask the seller where the tenant's security deposit is. So even though taking over your new property can be chaotic, don't fall into the trap of verifying the facts verbally. Confirm all information in writing, and begin setting up a detailed filing system for your new property.

WARNING

"As is" sales are common in many areas of the country. Many sellers simply prefer to put as much of the onus as possible on the buyer to perform a very comprehensive and diligent pre-purchase due-diligence investigation of the property. But that preference doesn't change the legal disclosure requirements of sellers to fully disclose any and all known material issues with the property, particularly those related to its current physical condition, and/or a complete history of maintenance and repair issues.

In the following sections, I cover some items that you must have in writing *before* the deal is final. At `www.wiley.com/go/propertymanagementkitfd4e`, you will find a Property Takeover Checklist for small and large properties.

A comprehensive list of personal property included in the sale

Take an inventory of all the personal property included in the sale. This list may include appliances, equipment, and supplies owned by the seller.

REMEMBER

Don't assume that anything is included in the sale unless you have it in writing, and be sure to verify that all items indicated are physically at the property before you close the deal. A significant dispute can occur if a misunderstanding arises about who owns the fixtures or appliances in the rental unit. If the seller says that all the refrigerators belong to the property owner (as opposed to the tenants), for example, you want to verify ownership in writing with each tenant. Otherwise, you run the risk of a serious dispute or loss in future years; tenants might take appliances when they leave, claiming that those fancy fridges belong to them.

WARNING

Some ingenious tenants have been known to sell the new appliances in their rental unit and replace them with used appliances when a change in the property's ownership or management occurs, so be sure to take photos and collect a list of all your appliances' serial numbers during your due-diligence period. Then make sure that your lease reflects accurate ownership of all appliances.

A copy of the entire tenant file of each current tenant

Make sure that you have all the appropriate paperwork in the tenant files. These documents include rental applications with the credit screening and criminal-background reports, current and past rental contracts, move-in inspection checklists, full payment history (and any rent-increase documents), all legal notices, maintenance work orders or service requests, current contact information, a tenant complaint or communication log, and all written correspondence (letter/email/text) sent to or received from each and every tenant.

A seller-verified rent roll and list of all tenant security deposits

A *rent roll* is a list of detailed information about every rental unit at the rental property, including the tenants' names, current and market rent, any additional fees (such as for parking, pets, and storage), rent due dates, move-in dates, lease expiration dates, past-due rent, prepaid rent, rent concessions, and security deposits. Be sure that you get a written seller statement that no undisclosed verbal agreements or concessions have been made with any tenant regarding any aspect of the tenancy, including rent security deposits, unit upgrades, renewal options, payment of utilities, or any other aspects of the financial terms of the lease or rental agreement. Ensure that when interest must be paid on security deposit balances, you collect the deposits (plus all accrued interest to date) at closing.

When acquiring an occupied rental property, be sure to follow state or local laws in properly handling the tenant's security deposit. Most state laws require the seller and/or purchaser of a rental property to advise the tenants *in writing* of the status of their security deposit. These laws usually give the seller the right to return the deposit to the tenant or transfer the deposit to the new owner. Here's why you want the latter to happen:

- If the seller refunds the security deposits, you have to collect them from tenants who are already in possession of the rental units. Avoid this scenario by strongly urging the seller to give you credit for the full amount of the security deposits on hand in escrow, and have each tenant agree *in writing* to the amount of the security deposit transferred during the sale. Close the loop by sending each tenant a letter confirming their security deposit amount.
- If the seller transfers the security deposits to the buyer — rather than returning the deposits to the tenants — make sure that you receive in cash (or as a credit in escrow) an amount equal to all the security deposits held (plus all accrued interest owed to the tenants, if any). Remember that if you do get a credit in escrow, you must have available funds be able to refund the remaining balances (after taking proper and legal deductions) of any tenant security deposits when the tenants move out.

WARNING

Without written proof to the contrary, dishonest tenants may later claim that they had a verbal agreement with the former owner or manager for a rent credit or discount for maintaining the grounds or doing light maintenance, or that they were promised new flooring or another significant unit upgrade. If this scenario happens to you, offer to contact the former owner or manager immediately to verify the tenant's story. In my experience, when you offer to verify the story, the tenant typically begins to backpedal, and the truth comes out. But to avoid any surprises, obtain a written statement from each tenant indicating that no such verbal agreements exist *before* closing escrow.

A copy of all required governmental licenses and permits

Rental property owners in many areas are now required to have business licenses or permits or to register their rental units with some government agency, such as a rent-control board. Contact the appropriate government entity in writing, notifying it of the change in ownership and/or billing address.

WARNING

These government entities often impose stiff penalties if you fail to indicate the change in ownership in a timely manner. They may even retroactively force you to refund already-collected rent to your tenants, plus significant penalties and interest. They inevitably find out about the change; tenants will contact them, and they monitor the local recording of deeds and receive notification of changes in billing responsibility from local utility companies.

REMEMBER

Make sure that you have copies of all current state and local rental laws and ordinances that affect your rental property. Check out `www.wiley.com/go/propertymanagementkitfd4e`.

A copy of all the latest utility bills

Get all the account and payment information for every utility provider that provides services to the rental property, along with verification that all payments are current. These utilities may include electricity, natural gas, water/sewer service, trash collection, telephone, cable TV, and Internet access. Before the close of escrow, contact each utility company, and arrange for the transfer of utilities or change in billing responsibility as of the estimated escrow closing date. If you give them sufficient notice, many utility companies can arrange for the final meter reading and/or billing cutoff to coincide with the close of escrow, preventing the need to prorate any utility bills between owners.

Also find out whether the seller has any deposits on hand with the utility company and whether you need to place a deposit for service. You may be able to handle the transfer of the deposit through escrow with a written deposit-transfer acknowledgment from the utility.

If a review of the property expenses indicates that utility costs are unusually high, you may want to insist on reviewing copies of the historical bills to determine whether a one-time variance occurred or \the property might benefit from conservation efforts.

TRUE STORY

Let me reiterate: Verifying the accuracy of all utility bills is extremely important. One of my expert-witness cases involved a water utility improperly charging a property owner for sewer charges related to a water meter used only for irrigation. (Some water utilities exempt irrigation-only meters from sewer charges because the water never enters the sewer system.) In this case, the water company had collected sewer fees for many years until the discrepancy was brought to its attention. The property owner did receive lower bills in the future, but state law protected the company from refunding any overcharges beyond the previous 12 months. The owner paid thousands of dollars in overpayments — a very expensive management lesson.

A copy of every service agreement or contract

Make sure to obtain copies of all service agreements and/or contracts. These documents may include agreements with maintenance landscapers or gardeners; pest-control services; heating, ventilation, and air conditioning (HVAC) companies; boiler maintenance services; laundry services; elevator, swimming pool, or spa servicing; and other providers. Review all current contracts, and meet with service providers that the current owner uses. If contracts bind you to continue service, ensure that such provisions are legal and in your best interest. You may need to consult an attorney or renegotiate your purchase if you discover service agreements and/or contracts that are not competitively priced or provide only what you need.

TIP

If you plan to terminate the services of a particular contractor or service provider, the seller may be willing to voluntarily send a written conditional notice of termination indicating that, should the property sell as planned, the provider's services will no longer be needed as of the close of escrow. Then you're free to make your own plans for services and can even renegotiate with the current company for better terms. If the seller already had favorable pricing with the provider, of course, you may be able to negotiate the same terms.

A copy of the current insurance policy and loss history

One of the most important steps in the takeover of your new rental property is securing insurance coverage. Make sure that you have the proper insurance policy in place when you legally become the new owner. Most lenders won't fund your loan until you provide written evidence that the property is adequately insured. Although the seller's policy won't protect you in any way, request a copy of their existing policy or declaration of coverage and the loss history (typically, for the

past five years) because this information can be very helpful to your insurance broker or agent when analyzing the property to determine the proper coverage.

When you receive the current insurance information, take steps to verify the accuracy of all records. If certain representations about the types and amounts of coverage are made verbally, not in writing, protect yourself by sending written documentation to the seller and all agents to confirm any information you've received. This step can be important in preventing future disputes about the representations made by the seller or any of the agents.

REMEMBER

Always seek the advice of a professional insurance agent when obtaining insurance coverage. To avoid the unpleasant surprise of very high premiums, be sure to have your agent run a *loss history* on your new property before you close escrow to determine whether any losses have been claimed. You may find that the property had significant claims in the past, which affects your ability to find reasonably priced insurance coverage. The loss history can also show problems that have occurred at the property, including several small ones that can indicate larger ones (such as plumbing leaks). Finally, you should ensure that no claims have been paid by the current insurer for repair or replacement work that hasn't been done.

A FINAL WALK-THROUGH CAN SAVE YOU HEADACHES

TRUE STORY

Before you close escrow, take a final walk-through to make sure that the property hasn't been damaged before closing. I was an expert witness in a case in which the new buyers learned this lesson the hard way because they didn't visit the rental home before closing.

When the sale was complete, the new buyers excitedly went to see their new property, which had sat vacant for nearly a week during escrow. They were shocked to find the home flooded and severely contaminated with mold. The buyers sued the seller, claiming that someone had intentionally or inadvertently left the water supply line valve to the refrigerator's icemaker open, allowing water to cover the entire first floor. The buyers were unable to prove that the damage occurred while the seller still owned the property, so the seller's insurance company denied the claim.

Ultimately, the buyers' insurance company agreed to pay for some of the damage, but not before the buyers went through more than two years of expensive and emotionally draining litigation; they also lost rent because the property sat vacant the entire time. The buyers could have avoided this mess if they had inspected the property just before the close of escrow and stopped the sale until the damage was addressed.

WARNING

Although you may trust your insurance agent implicitly, don't allow your escrow to close until you have written documentation confirming that your insurance coverage is in force. A property can suffer a catastrophic loss or liability claim hours after it changes hands, before the new owner's insurance coverage is in place. The previous owner's policy automatically ended upon the sale, so you need to make sure that there is no gap in coverage, even if you have your new policy start slightly before the day you close escrow. It's better to have overlapping coverage for a couple of days than to discover that you had no coverage when the tornado or hurricane came down your street.

Working with the Current Tenants During the Transition

If, like most rental property owners, you're acquiring property that's already occupied, the tenants are probably well aware of the pending ownership change. But that fact doesn't mean that they're excited about it. Tenants are typically full of apprehension when their residential rental unit changes ownership, not because they think you'll be an unreasonable landlord but because of the uncertainty of change. So begin your relationship with your tenants on a positive note by following the steps I outline in the next sections.

Meeting the tenants in person

When you first acquire your new residential rental property, contact your tenants in person and reassure them that you intend to treat them with respect and have a cordial yet businesslike relationship. Deal with your tenants' questions honestly and directly. Often, the first question they ask is whether they'll be allowed to stay. Other common concerns are the potential for a rent increase; the status of their security deposit; the proper maintenance or condition of their rental unit; and the continuation of certain policies, such as those concerning pets and rent. Anticipate these concerns, and prepare your responses. You'll lose credibility and damage your relationship with tenants if you later decide to implement changes that you didn't acknowledge up front.

TIP

Give your tenants a letter of introduction during this brief in-person meeting. This takeover letter should provide your contact information and explain your rent collection policies and procedures, the status of tenants' security deposits, and the proper procedures for requesting maintenance and repairs.

Inspecting the property

The condition of a property directly affects its value. The prudent real estate investor always insists on making a thorough physical inspection before purchasing an investment property, even if the property is brand-new.

A new investment property may look good on paper, and your pre-offer due diligence may reveal no legal or financial issues or concerns. But your investment is only as good as the weakest link, and a physically troubled property is never a good investment (unless you're buying the property for the land and plan to demolish the current buildings).

TIP

You're probably making one of the biggest financial purchases and commitments of your life. Though real estate investors by nature tend to be frugal, never try to save money by forgoing a proper physical inspection by qualified experts. Unless you have extensive experience as a builder and contractor, you probably have no idea what you're getting into when it comes to evaluating the condition of most building systems. But even if you have experience, never rely on your own inspection entirely or try to save money by cutting corners. Even experienced, fully qualified real estate investors can find their judgment tainted by an emotional attachment to the property.

My experience is that an inspection usually pays for itself. Inevitably, you're going to find items that the seller needs to correct that are greater in value or cost to repair than the nominal sum you spend on the inspection. This value isn't just a marketing ploy by inspection firms, but it also isn't a game that you "win" if you can offset the inspection cost by finding enough items that the seller must correct or provide credit in escrow for — as some real estate gurus seem to believe. Instead, inspection is a serious matter, not just a way to squeeze more out of the seller.

The best result is an inspection that reveals no problems. Although you've spent money, it's a great relief to know that your property is in good condition (at least at the time of the inspection). That doesn't mean there won't be repair or replacement items that need your attention in the future, possibly even the very near future. In my early days in real estate investing, I worked for an apartment developer whose favorite saying was "To own is to maintain!"

Inspecting the rental unit

Although you likely had a brief chance to view the unit's interior during the due-diligence period before escrow closed, walking through again with the tenant can be helpful. Know your state's laws, however. In most states, tenants don't have to let you enter their units unless you have a legal reason and have given proper

notice. If you set a voluntary appointment, the tenant knows that you're coming and can prepare. If conducting a periodic unit interior inspection (perhaps annually) is legal in your state, set that expectation with your tenants at the outset, and include it in their lease.

Don't knock on the door and expect to walk through a tenant's rental unit. But if you're already at the property delivering your letter of introduction (see "Meeting the tenants in person" for more on this topic), you can schedule a mutually convenient time to meet. Some tenants are glad to meet with you then, but don't necessarily count on that. Giving your tenants time to think about any issues they'd like to discuss is beneficial for all of you.

The former owner of the property may have had a policy of documenting the unit's condition at the time the tenant took possession of it. If so, you may want to compare those notes with the notes you make when you walk through the unit. If proper documentation of the unit's move-in condition wasn't made, consider preparing such information during your walk-through. This info allows you to establish some sort of baseline for the unit's condition to use when the tenant moves out, which then helps you determine the proper amount of the security deposit to return.

Using a new lease or rental agreement

When you're taking over an occupied rental property, you always want to transfer the tenants to your own lease or rental agreement as soon as legally practical. The sooner you begin to convert your new property to your rental contracts, the better. If your policies are markedly stricter than the previous owner's, you may find the transition period to be difficult. For a single-family rental or a small rental property, implementing your own rental agreement as soon as legally allowed is relatively easy. For a larger rental property, you may want to transition to a new contract gradually upon tenant turnover. Regardless, establish uniform policies for all your tenants to avoid any possible fair-housing violations. (Find out more about fair-housing laws in Chapter 11.)

Your tenants already have one of the following:

- A valid written lease
- An expired written lease that has become a month-to-month rental agreement
- A written month-to-month rental agreement
- A written rental agreement for a period of less than a month
- A verbal agreement

Your ability to implement your own lease or rental agreement will be affected by which agreement is currently in force with any existing tenants. You have to honor a written lease until it expires. If your tenant has an expired lease that is now a month-to-month rental agreement, or they are already on a month-to-month rental agreement, you can transfer your tenant to a new rental contract upon 30 days' written notice. A verbal agreement can be changed at any time.

REMEMBER

Although you may want to make some changes in the terms or policies of your tenants' current leases or rental agreements when you acquire an occupied rental property, your legal and business relationship is established by whatever agreement the tenants had with the former owner. Wait until the contract's expiration to change the terms — or provide the tenants proper legal notice of any proposed changes.

WARNING

Be extremely careful that your new lease or rental agreement fully complies with current state and local laws. This warning may seem to be obvious, but residential landlord–tenant laws in many states and even local jurisdictions change constantly, especially since the pandemic. If you attempt to use a lease or rental agreement from another state or even another jurisdiction within the same state, or one that hasn't been reviewed recently by a landlord–tenant legal professional, a court might determine that your lease is illegal and unenforceable, which could be a very expensive lesson. Never use leases or rental agreements that you find online (including the ones that I'm sharing with you) without having a landlord–tenant legal professional review the lease or rental agreement.

The tenant information the seller provided you during escrow may be outdated. One quick way to update your records is to have the tenants voluntarily complete your rental application form. In many states, you may not have a strong legal argument for requiring existing tenants to provide this information, but many tenants will understand your reasoning and not mind. Other tenants may be reluctant to complete a new rental application. Even if you receive initial resistance, seek this updated information before renewing any lease. You need to be able to determine the financial qualifications of your tenants, particularly if you anticipate future rent increases.

Evaluating the current rent

When you acquire a rental property, part of your research is to establish its market rental value. This accurate calculation should play a role in your decision to buy. If a tenant's current rent is below market value, one of your toughest decisions is how to handle rent increases. If you are in an area that has rent control, you may find that you are unable to increase the rent at all, or that you can do so only over many years until you can get close to the market value. You also need to know whether there is *vacancy decontrol*, which allows the landlord to raise the rent by some amount or even up to full market rent at the beginning of a new tenancy.

TIP

Consider the potential effect of making significant changes in rental rates or policies immediately after you acquire the property. Although you may have strong feelings against allowing pets on the property, for example, your tenants may already have pets. Although you legally have the right to implement your no-pet policy upon lease renewal or proper legal notice, you're almost guaranteed to have a vacant rental units if you do so. Impose your policies over a reasonable time frame, but be sure that you're aware of the potential financial consequences in the short run.

As the new owner, you often have higher mortgage payments and expenses (such as necessary repairs and upgrades to the property) than the last owner did. Some tenants get very upset and antagonistic about any rent increase, however, and you won't be able to appease them. If tenants simply can't afford an increase, work with them, and give them ample time to relocate if necessary. Other tenants welcome the improvements that accompany the purchase of their building by a new owner and will accept the rent increase.

REMEMBER

Fortunately, most tenants expect to be treated fairly and honestly. They understand that you may have higher expenses and will reluctantly accept a rent increase as long as you meet two basic conditions:

- **You don't raise the rent beyond the current market rent for a comparable rental unit in the area or beyond any legal limits.** Give tenants documented information on comparable rentals in your area to show them that you're not asking for unreasonable rent.
- **You're willing to make basic repairs to the rental units.** Don't ask tenants to shell out extra cash without proving that you're committed to maintaining and even improving the property. But tenants don't appreciate all improvements equally. A new roof may not mean much if a unit didn't leak, but a new boiler or water heater could mean better water pressure or more consistent hot water, which all tenants will notice.

Most tenants just want to be sure they're receiving some of the benefits of paying higher rent. If you ask for more rent, be willing to reinvest a portion of the rent increase in the property with cost-effective improvements that conserve energy and/or increase tenant desirability.

WARNING

Although you may be tempted to do so, be wary of making significant renovation or repairs to the property before the close of escrow. If the sale of the property doesn't go through as planned, you may have spent considerable sums to upgrade the seller's property without any recourse.

2 Renting Your Property

IN THIS PART . . .

Understand the process of renting your residential property.

Get your rental unit ready for tenants.

Set the rent, and evaluate marketing and advertising options.

Show your property to prospective tenants.

Develop good tenant-screening policies.

IN THIS CHAPTER

- Examining and assessing the exterior and interior of your rental property
- Cleaning, repairing, and upgrading your property
- Working with professionals to prep your rental unit

Chapter 5

Getting Your Residential Rental Property Ready for Prospective Tenants

Properly preparing your vacant residential rental property for its new tenants is critical to your overall success as a rental property manager. Because vacant rental units don't generate rental income, you need to fill your vacancies with good, stable, rent-paying tenants as quickly as possible. How, you ask? By making sure that the interior, exterior, and grounds of your vacant units are clean and in rent-ready condition when you show them to prospective tenants.

In this chapter, I show you how to look critically at the exterior and interior of your property to formulate a plan for preparing the unit. I also help you figure out what needs to happen, when it needs to happen, and whether you're better off hiring outside contractors to assist you in your preparation efforts.

Viewing Your Rental Property from a Prospective Tenant's Shoes

First impressions are huge, which is why you want to make sure that your prospect's first impression of your property is a positive one. If the property's exterior and grounds don't look nice, your prospect won't even bother to see the interior — where you've just installed new appliances and the latest in high-quality wood laminate flooring and solid-surface countertops. Similarly, a prospective tenant's positive first impression of your property's exterior soon disappears if its interior isn't just as sharp and well maintained.

Ideally, your vacating tenant will be cooperative, and after giving proper legal notice to enter, they will allow you access to the rental unit so you can determine what items need to be cleaned, repaired, replaced, or even upgraded. If the tenant doesn't let you in voluntarily, review the rental unit maintenance records to find out the age and condition of the flooring and appliances so you'll have some idea of the type of work that may be necessary.

After you do get access, as you walk through the unit, take lots of notes and pictures showing the current condition and what needs attention to get it ready to rent again. If this task isn't your strong suit, invite your favorite contractor or interior design expert to join you. Your pictures and notes are the foundation for a detailed plan that can help you attract several qualified prospects who want to lease the unit at the market rental rate you're seeking. The next sections help you put that plan into place.

Paying attention to the exterior and common areas

REMEMBER

A poor first impression of your unit's exterior is hard to reverse, regardless of how great the inside may look, which is why you want to make a great first impression. To do so, you need to think about *curb appeal*, the visual attractiveness of your property when seen for the first time by a prospective tenant standing in front of the property "at the curb."

To attract tenants who'll treat your property properly and stay for years, keep the following suggestions in mind:

- **Starting at the street, carefully critique your property as though you were entering a contest for the best-looking property in your area.** First impressions are critical, and one of the key areas that all prospective tenants see is the entry. Make sure that the entryway is clean, well-kept, and well-lit.

Clean the front door, or apply a new coat of paint or stain. Buy a new welcome mat. Remove or replace a broken screen door or mailbox. Add stylish address or unit numbers that denote attention to detail. Also, check the driveways and walkways to ensure that they're as neat and tidy as possible.

- **Make sure that your grounds and exterior areas are sparkling clean and that the landscaping and irrigation are well maintained.** Believe it or not, you can renovate your grounds inexpensively by picking up trash and junk, removing weeds, watering the grass, and using the right fertilizer. A nice green lawn. manicured shrubs, and evergreen shade trees enhance any property. Additionally, using flowering plants or perennial flowers is a great way to boost curb appeal and add color that will catch a prospect's eye. Savvy rental property owners know that landscaping is one of the most cost-effective ways to significantly upgrade a unit.
- **Check all patios, balconies, and entryways.** All these areas should be clean, and the railings should be solid, secure, and firmly attached. You want to be sure that the entryways are unobstructed by landscaping and other items and that there are no tripping hazards.
- **Make sure that the structure is presentable and inviting.** Although major architectural changes are often cost-prohibitive, you can do a lot with a little paint, landscaping, and cleanup. These items generally don't cost much compared with the positive benefits you'll gain. Some specific exterior improvements to consider are ground-level or hanging planters, brass house numbers with night lighting, awnings, and freshly painted fence or house trim. Examples of exterior and landscaping renovations that can completely change a property's curb appeal and even reposition tired rental properties include seasonal flowering plants, new shrubs to replace the ones that have become sparse and woody, low-voltage landscape lighting, motion-sensor lights, and new electrical fixtures.

Making sure that the interior is up to snuff

The most qualified, stable renters always have choices, no matter how good or bad the rental market is. You're in competition for these excellent tenants, and you need to make sure that your unit stands out from the rest.

WARNING

Don't show your unit until it's completely rent-ready. Prospective tenants often have a hard time seeing a unit's potential. If you show them a dirty unit, they'll *always* think of it that way. Although you may lose a couple of potential showing days by taking time to prepare the unit, you'll benefit in the long run by signing a more conscientious tenant. Trust me when I say that tenants who are more careful in the selection of their new rental home are planning to stay longer and will take better care of your rental unit — exactly the type of tenant you want.

CURB APPEAL IN A COMMUNITY ASSOCIATION

If you own a rental unit in a common interest development (CID), commonly referred to as a community association or homeowners' association (HOA), the responsibility for the maintenance and repair of the common areas typically falls to the association. Contact the association or its property manager about any common-area concerns you have. The association has a vested interest in ensuring proper maintenance of the premises and maintaining a sense of desirability for owners and tenants, but it may require some persuasion to take action.

Common interest developments or associations are not-for-profit entities run by volunteer boards of directors who are often reluctant to assess their owners and spend money to upgrade or modernize aging properties. Rarely do you find an association with plentiful reserves and well-maintained property unless it has strong leaders who are willing to make beneficial upgrades a priority. So I encourage you to get involved as a member of the association and use your expertise to demonstrate to the other owners (many of whom may be owner–occupants) that proper maintenance can reduce long-term operating costs and maintain higher property values, which is a concern for all owners.

When preparing a rental unit for a new tenant, don't overlook or forget a single item. Unless you are a seasoned pro, I recommend using an inspection checklist to guide you through the process and assist you with final inspection. Here's a list of what to go over in preparation for your new tenant:

- **When you have legal possession, remove any personal possessions and trash left behind by the previous tenant.** Be sure to follow any state or local laws providing proper legal notice to the former tenant and giving them any required opportunity to reclaim abandoned personal property.
- **Check all plumbing (toilets, faucets, and supply line and drains) for proper operation.** Make sure that nothing leaks, the plumbing has the proper pressure, and everything drains adequately. Make sure that the pressurized supply lines for toilets, washing machines, and ice makers are braided stainless steel of the highest quality and in good condition, because the failure of a pressurized water line is one of your greatest risks for extensive property damage.
- **Test all appliances for proper operation.** Run the dishwasher through a full cycle, and look for leaks. Be sure that the oven's drip pan, broiler pan, and racks are included and spotless. If you have a free-standing oven or range, be sure that the anti-tip bracket is installed. It's also a good idea to pull out each

appliance, vacuum the refrigerator coils, wipe down the entire appliance till it shines, and scrub the floor on which it sits, as well as the adjacent walls and cabinet surfaces.

- **Try out all hardware.** Rekey or change the locks to make sure that they're operational. Pay attention to all latches and catches, doorknobs and pulls, doorstops, and sliding doors.
- **Check all windows, including the glass and insect screens, and window coverings.** Verify that they're clean, unbroken, secure, and properly operational. Test all window locks to be sure they work as well. Check for broken seals between the glass and the frame, scratches on doors and window frames, and condensation stains.

REMEMBER

Window treatments can make your rental property look great, and your tenant will value attractive, functional window coverings. A wide range of affordable window treatments are available; explore all your options to determine what's most desirable in your area. Choose window coverings that are durable and easy to maintain and that appeal to your prospective tenants. I recommend moderately priced shutters or high-quality vertical or horizontal blinds because they're much easier to maintain and clean than most drapes or the once-popular cheap white plastic mini-blinds. But don't be too cost-conscious; I suggest that you splurge for a little more quality here, especially in the rooms where tenants will spend most of their time.

- **Inspect all walls, ceilings, and baseboards.** Confirm that the paint and/or wall coverings provide proper coverage, without holes, cuts, scratches, nail pops, or bad seams.
- **Examine all floor coverings.** Make sure that floors are clean and in good condition. All flooring should be properly installed, without bad seams.
- **Check all bathrooms.** Thoroughly clean the toilet, tub, tile grout, shower, sink, mirrors, and cabinets. Check the toilet paper holder and towel bars to be sure that they're securely mounted and clean. Put a new roll of toilet paper and a paper sanitary ring around each toilet seat in each bathroom as an extra touch — one that is most appreciated in our post-COVID-19 world.
- **Look over all closets and storage areas.** Clean rods, closet dowels, hooks, shelves, lights, floors, and walls. Ensure that all doors open and close properly. Remove and clean those ceiling-mounted lighting fixtures, which often have the shadow of a bug carcass sending a subtle signal to your prospective tenant that their clothes and beloved possessions won't be safe from attack by insects!
- **Examine all counters, cabinets, doors, moldings, thresholds, and metal strips.** Verify that they're clean and fully operational, presenting no hazards.
- **Test smoke and carbon-monoxide detectors, lighting, and electrical outlets, including all ground-fault circuit interrupters (GFCI, also referred to as GFI) and circuit breakers, for proper operation.** Make sure that all

electrical components work at move-in and thereafter as required by law in your state or local jurisdiction; otherwise, it's the tenant's responsibility to notify you of any problems during their tenancy.

- **Check the fireplace.** If your unit has a fireplace, clean out ashes and debris. Periodically have the chimney flue and vent cap inspected by a qualified professional, based on the amount of use and any applicable state or local laws.
- **Inspect the heating and air conditioning unit(s) for proper operation.** Be sure that the thermostat, filters, vents, and registers are in working order. Consider an annual preventive maintenance program if one is cost-effective for your cooling and/or heating system. You may find that your local natural gas utility company offers complimentary inspections of all gas heating and cooking appliances. Contact a professional if necessary.

TRUE STORY

FORGET SECOND CHANCES WHEN IT COMES TO SHOWING A RENTAL

Early in my property management career, I learned a valuable lesson about the importance of cleanliness and first impressions. I'd just arrived at a rental property for a management inspection and was speaking to the on-site manager when a prospective tenant entered the rental office and asked to see a vacant unit. She was a local college student out apartment-hunting with her mother. I told my manager to go ahead and show the unit, explaining that I'd follow along if they didn't mind.

Together, we left the rental office. The property grounds were very well maintained, and the on-site manager did a great job of getting to know the prospect's needs and determining the right unit to show. With the manager's help, the prospect and her mother asked to see an upstairs unit, away from the street.

Everything was going great . . . until we got to the actual unit. A dirty, cobweb-filled entryway led us to an interior (which hadn't been tidied in at least a week!) where we could see a large tree branch hanging precariously over the balcony rail and scraping the concrete roof tiles menacingly. Before seeing the unit, the prospective tenant and her mother had been very positive, even discussing how soon the tenant could get approved and move in. After this disappointing experience at the unit entry, they stopped asking questions, barely answered any, and became very noncommittal.

Learn from my mistake: Remember that the unit's cleanliness is paramount. Never show a rental unit without having walked the full route to the rental unit, and be sure to go through the complete interior yourself just before the showing.

» **Perform a final walk-through of the entire unit for appearance and cleanliness.** Be sure to recheck the unit every few days, because dust can settle quickly in a vacant unit. I've also seen an unpleasant surprise in the form of dead pests or insects that took their time expiring from recent pest-control efforts. Nothing stops a good conversation with a great prospective tenant faster than stumbling upon a dead bug in the middle of the kitchen floor!

TIP

For a sample Interior Unit Inspection Checklist, go to `www.wiley.com/go/propertymanagementkitfd4e`.

Preparing Your Rental Unit the Right Way

You may think that you're saving time and money by allowing a new tenant to lease a rental unit that hasn't been prepared properly. After all, if Bob doesn't mind that the unit isn't rent-ready, why should you? Unfortunately, this strategy isn't as problem-free as it seems on the surface. In fact, it's a big mistake. Why? The kind of tenant that a unit that hasn't been properly prepared attracts is someone who has lower standards and may even be desperate. New tenants who accept a dirty, poorly maintained rental unit surely won't make any extra effort to leave the property in good condition when they depart.

TIP

Know that cheaper isn't always the wise choice. Weigh the cost of frequent replacement against the cost of a more-durable product when making renovation decisions. Cleanliness is essential. If you rent a dirty unit, new tenants will rightfully assume that your standards are low and will show a lack of care during their tenancy.

One of the best ways to maximize your rental income is to develop a system to improve your efficiency by completing your rent-ready process in minimum time. But you may be so overwhelmed by the amount of work you need to get done in the amount of time you have that you don't consider the order in which you should proceed. I recommend that you follow these steps in order to maximize your time and efficiency:

1. General cleaning (hauling away anything left behind by your vacating tenant)
2. Maintenance (which includes inspecting safety items, making repairs, and installing upgrades)
3. Painting
4. Final cleaning and sanitation
5. Carpet or floor-covering cleaning

REMEMBER

Though you can't begin turning the rental before the tenants vacate, now's the time to walk through the unit and come up with your plan for getting it ready to rent again.

General cleaning

As soon as old tenants move out, clean the vacant rental unit. During this initial cleaning, you should

- Remove all trash left behind by the former tenants, including anything remaining in drawers, cabinets, and closets.
- Wipe down countertops and shelves.
- Sweep or vacuum the floors.
- Wash the windows, screens, window coverings, and doors.
- Clean out the storage areas, including the attic, basement, or garage as applicable.

Maintenance

Maintenance is more than just fixing something that's broken. A comprehensive maintenance approach also includes inspections of all safety items before renting your property to make sure that they're in place and working as intended. Although you'll routinely handle basic repairs, you should also look for opportunities to perform preventive maintenance to improve the performance and life span of your building systems. You also need to evaluate whether renovations and upgrades are cost-effective.

The following sections help you figure out which safety items you need to check and which maintenance tasks require a closer look. They also help you determine whether renovating or upgrading your property is worthwhile and, if so, what direction you should go in with your changes.

REMEMBER

Inspecting everything in your rental property while it's vacant is important. Completing this inspection properly doesn't mean that you need to be a certified repair technician or a licensed professional contractor who's fluent in all building systems; you just need to ensure that the interior unit systems are operational for the standard day-to-day use you expect from your new tenants. If you aren't certain what to look for or if anything seems awry, be sure to contact a repair professional who's qualified for the building system that needs inspecting, and have them provide documentation showing their completed work.

Inspecting safety items

Although tenants need to take an active role in and have ultimate responsibility for their own safety, you need to check all safety items upon unit turnover. The most basic safety items in virtually every residential rental unit are door locks, window locks, and smoke detectors. Be sure that the following items are in place and working before the new tenant takes occupancy:

- **A small fire extinguisher:** Even if one isn't required by code, I recommend that each rental unit have a fire extinguisher. Although the tenant may not use the fire extinguisher properly, most life-saving professionals advise that one is worth having, because using a fire extinguisher quickly can keep a fire from spreading. The tenant should ensure that someone has contacted 911 or the appropriate agency before attempting to put out the fire, of course.
- **Adequate locking mechanisms:** Many local and state building codes have specific requirements concerning the types and specifications of door lock sets. Recent trends in legislation require all windows that open and are accessible from the ground to have proper window locks. Windows and screens should be in place and in good condition. The primary purpose of screens is to keep the elements and insects out, but screens can also have some value as a crime deterrent.
- **Smoke and carbon-monoxide detectors:** These items are inexpensive and extremely important to your tenants' safety. Check with your local fire department for its code requirements; some departments expect detectors to be electrically hard-wired, and others still allow battery-operated units. Smoke detectors with removable batteries are no longer available. All new units have sealed batteries that can't be replaced, and they have expiration dates, which mean that the units need to be replaced on or before those dates.

  Contact your local fire safety or building officials for the latest info on fire and safety codes. Many of the rules have changed in recent years, particularly regarding the number and locations of required smoke detectors. Consider complying with any recommendations, even if the action isn't required in existing rental units. Carbon-monoxide detectors are just becoming required in many areas, for example.

  Make sure that your records clearly indicate that you tested all the detectors and found them to be operating properly before your new tenant moves in. Afterward, the tenant must not disconnect or disable the detectors in any way. The tenant is also responsible for replacing the batteries (if the smoke detectors are the older variety, with removable batteries), regularly testing the detectors, and alerting you in writing if they don't operate properly.
- **Other important items:** Your preparation work should also include testing the GFCI or GFI in kitchens and baths, plus any other safety items, such as radon detectors.

If the municipality in which your rental property is located requires that tenants always have access to the roof, check with local agencies about possibly restricting that access for tenant safety. You may be able to install panic hardware that meets the code requirements of access but sounds an alarm if the door to the roof is opened.

Although doing so is not required, if you're ever sued, having written confirmation that all safety items were operating as intended at move-in can be helpful.

TIP

Be sure that the house number or address is clearly marked on the exterior of your rental unit with at least 6-inch-tall characters so that locating the property from the street or primary point of public access is easy. This simple measure can be a huge help to life-saving personnel during an emergency.

Performing turnover maintenance

REMEMBER

Most of the items requiring maintenance in your vacant unit are minor, such as sticky closet doors, loose doorknobs and towel bars, and burned-out light bulbs. But be sure that you carefully and regularly evaluate the current condition of all systems and equipment, including plumbing; electrical; appliances; and heating, ventilating, and air conditioning (HVAC). Keep the following pointers in mind:

- **Carefully inspect all plumbing fixtures.** Look for leaky faucets, clogged aerators, or running toilets, and check whether all drains work adequately. Test the angle stops and shutoff valves for all toilets, washers, dishwashers, and faucets, including under each sink, and look for signs of leakage. Even small leaks can be major problems if they're not detected and repaired quickly. Though leaks in drains are difficult to detect because they're not pressurized, look for telltale signs of water on the ceilings of downstairs units from drain leaks in upstairs units.
- **Inspect and test the electrical components.** Make sure that the circuit breakers or fuses are all in place and operating properly. Replace burned-out light bulbs, and check light switches and outlets. If possible, verify that the cable or satellite television and telephone lines are working too.
- **Inspect each appliance to make sure that it's operating properly.** Stoves and ovens contain modular parts; you can replace the burner drip pans and control knobs very easily because replacement parts are readily available for most major appliances. Run the dishwasher through a cycle, and look carefully for any signs of leaks around the pressurized supply line, the door gasket, or underneath near the pump housing (where any leaks indicate you have a cracked tub and need to immediately replace the dishwasher).
- **Conserve energy by turning off the water heater, furnace, and air conditioning units at the breaker and setting the refrigerator/freezer to low.**

Your turnover work should also include cleaning or replacing all filters — air (furnace and A/C) and water (refrigerator and some water heaters). This simple, low-cost item greatly improves energy efficiency and lowers the wear on the equipment. Keep records indicating the date when the filters were changed (you can write in permanent marker right on the filter), and be sure to remind your tenants when they should be changed again.

Tenants are becoming increasingly aware of the importance of conservation and energy efficiency. If you install water-saving fixtures, pilotless ignition gas stoves and water heaters or tankless water heaters, weatherproofing, insulated windows and doors, and energy-efficient appliances, you'll have a competitive advantage in the rental marketplace. Be sure to emphasize your green efforts in promoting your rental property.

- **Check the pool/spa/water features.** If your property has a pool, spa, or any water features, have a professional evaluate its condition and provide a written report documenting their findings, including the state of the equipment and the water quality. Poor water quality can create serious health issues, so always test all water systems to minimize the risk to people and animals. This evaluation establishes a baseline that can head off any tenant complaints down the road.
- **Perform maintenance that will minimize the likelihood of pests.** Caulk all cracks around the windows, foundations, drains, pipes, and any other items that penetrate the building envelope and may allow pests to enter the unit. Almost every rental property needs pest control at some point. Occasional sightings of cockroaches or ants in search of water or food are commonplace, and consumer products are available to handle these limited situations. But use professional exterminators to treat more significant problems, and talk to your exterminator about establishing a regular schedule for follow-ups to make sure that your unit stays reasonably pest-free.

  The increase in bedbug infestations over the past 20 years can be a real problem for landlords, so you should seriously consider ordering a preoccupancy inspection or certification to ensure that the property is bedbug-free when your tenant takes occupancy. An inspection for bedbugs and other pests before your tenant moves in provides a baseline, showing that bedbugs weren't present at that time. That doesn't mean you shouldn't aggressively respond to eradicate any future infestations, but effective pest control to minimize issues requires the full cooperation of the tenant, the landlord, and the pest-management professional. For more info about bedbugs, flip to Chapter 19.

Considering renovations and upgrades

Almost every rental unit has the potential for renovation or upgrades, giving you the opportunity to create real value in your units. The trick is evaluating the cost of the renovation or upgrade versus the rent increase you can get out of a

particular improvement *before* you start renovating. You need to be sure that you'll get your money back from your investment. The following sections help you figure out how much to renovate, what features prospective renters like to see, and what you need to do to stay within the law.

DETERMINING WHETHER TO RENOVATE: WHAT'S YOUR RETURN?

When you're considering making renovations and upgrades, you need to understand what they can and can't do for you. Many times, renovations and property upgrades result in increased net income and higher property value. At other times, however, the benefits may not justify the investment.

TIP

To consider the *payback* of a proposed improvement, calculate the total installed cost of the upgrade, and divide that number by the monthly increase in rental income. If you install a dishwasher for $400 and consequently increase your monthly rent by $25, the payback is 16 months. Whether 16 months is an acceptable payback and worth the initial investment of $400 is something that you have to determine. Just remember that you're not only increasing your monthly gross income, but also generating increased property value as a result of higher net income. The higher net income makes your property worth more to a buyer when you look to sell it.

Every real estate investor has different expectations, but generally, any payback of less than 24 months is good, especially when you look at the increase in property value that accompanies increased net income. See *Real Estate Investing For Dummies*, 4th Edition (John Wiley & Sons, Inc.), which I co-wrote with Eric Tyson, for more discussion of ways to increase the value of your rental property.

REMEMBER

Not everyone appreciates or values the same features in a rental unit as you. This property is a rental property, and as the saying goes, "Beauty is in the eye of the beholder." The features and amenities that appeal to you may not be worth the extra investment from the perspective of your target tenant market. Although you prefer expensive travertine floor tiles in your own home, for example, you may find that more-durable flooring products can tolerate the heavier wear and tear of rental units much better. Although cleanliness has universal appeal, features such as ceiling fans and microwaves may appeal more to some prospective tenants than to others.

EYEING WHAT PROSPECTIVE RENTERS WANT

Some tenants value certain improvements more than others do. So the main question is this: What features and improvements do most prospective renters want (which in turn can bring you more money in terms of higher rent)? You can't come up with an exact answer to what amount of increased rent a particular

upgrade will generate. A new granite countertop in the kitchen or new light fixtures in the dining room will have a different effect on each prospective tenant; some people are willing to pay more for those amenities, and others aren't.

TIP

Are you feeling a bit confused about the features that prospective renters want? Never fear! The following tips can guide you:

- **Keep in mind what features and strengths your prospective renters will find in competitive rental units.** Look for outmoded or outdated features in your own unit. Perhaps most of your competitors offer dishwashers, but you don't have one in your unit. You may want to install a dishwasher so that you remain competitive. But don't forget that you'll lose cabinet space, so you need to evaluate all aspects of the potential upgrade, not just the cost. Or maybe your unit has a very old dining-room light fixture that you can easily replace with a modern light fixture or a ceiling fan with a light kit. Another simple upgrade is replacing your old electrical switches and outlets for a more modern look. Installing new hardware or refinishing the face of the kitchen cabinets are other low-cost upgrades. Many older cabinets are of good quality, and only the doors and hardware need a facelift. Pay particular attention to those items that are quick, easy, and inexpensive to replace but can improve the overall look of your unit.
- **When upgrading or replacing your current appliances, always compare energy-efficiency ratings, and standardize the brand and model wherever possible.** One advantage of upgrading your appliances is energy efficiency. Though your tenant may be the one paying the rent, remember that green sells, and you can easily demonstrate that your unit will cost your tenant less each month in utilities with new energy-efficient appliances.

  The advice to standardize the brands and models of appliances in your rental units is particularly true for certain appliances; you can easily replace modular components to give the appliances a new look and extended life. Stoves, ranges, ovens, refrigerators, and washers and dryers fit into this category. When appliances such as microwaves, dishwashers, and garbage disposals fail, it's more cost-effective to replace the units. So for this latter category of appliances, you want to take advantage of appliance vendors who have certain models on closeout or special pricing while staying with the same color scheme or finish. Bonus: Tenants generally don't pay much attention to the brand of the garbage disposal, so you may as well take advantage of any specials. Buying a discontinued brand or model of a stove, however, may save you money up front but cost you much more in the long run, when you're unable to find replacement parts.

WARNING

If you have an older property, renovating may be more difficult because of some of the hazardous materials used in your unit's original construction. If you suspect any hazardous materials based on the age of your property or the type of construction, be sure to have testing done before you do any work. Hazardous materials such as asbestos and lead-based paint aren't cheap to remove. Often,

you'll be better off leaving the materials in place as long as they haven't been disturbed. Consult an expert on removing hazardous materials before determining the extent of the renovation and the proper methods to ensure that all hazardous materials are maintained safely. Also, check with your local building-code enforcement or health department for requirements on the proper handling and disposal of hazardous materials.

The Environmental Protection Agency (EPA) has implemented a lead-safe certified renovator program, and you should use only contractors who are on the approved EPA list. See `www.epa.gov/lead` to find a certified lead-safe firm near you. For more information on environmental hazards, see Chapter 10.

OBTAINING THE APPROPRIATE PERMITS

When you're considering renovations or upgrades, make sure to get the appropriate building permits or licenses required in your area. You don't need to be a code expert, but having a general understanding of both local housing codes and state housing laws is important. Evaluate your property to ensure that the planned work meets current building codes. Every state and many local municipalities have building codes that dictate the minimum standards to which all buildings must substantially comply. Often, they have housing, fire, and health and safety codes as well. Reviewing rental housing industry publications can alert you to significant changes in these codes. Also, using specialized trade contractors who stay current with all code changes that affect their work can be helpful.

If inspectors find that your property isn't in compliance with the proper codes, you may receive violation notices and potentially expensive fines. Building codes are updated and changed regularly, and typically, properties aren't required to meet the new code requirements unless the properties are renovated and new building permits are obtained. Make sure that you or your contractors are aware of the code requirements, and incorporate the necessary code-compliance measures into your renovations to maximize the safety of your tenants and to protect yourself from violations and fines.

Painting

The next step in getting your vacant rental unit ready is painting. The keys to success here are preparation and knowing what to paint when. Follow these steps to turn your unit into a rental work of art:

1. **Select and purchase the paint you want to use.**

   Standard colors are best so that you can easily and affordably touch up your rental unit instead of having to repaint it. One coat of a high-quality flat white latex paint is usually sufficient, so use this standard to help determine the

quantity you need to buy. ***Note:*** You may require more gallons if you're changing the paint color to a much lighter shade than the current version. Try to use the same brand of paint, because colors can vary by brand. If you're changing from a flat to a semigloss finish, you may be able to do so in one coat. If you're painting a flat finish over a gloss, you'll likely need to prepare the surface so that the new paint adheres.

TIP

Plan to use semigloss paint in kitchens and baths for easy cleanup and resistance to moisture. Although this type of paint may cost more, you save in the long run; purchasing higher-quality paint means that you don't have to repaint the entire unit when it inevitably turns over.

2. **Take everything off the surfaces you're painting.**

   Remove all nails, screws, picture anchors, and similar items. Detach all door hardware, air-vent covers, and electrical cover plates too.

3. **Strip all dirt from the painting surfaces.**

   Make sure to clean the walls in particular. Treat grease, crayons, water stains, and other blemishes with products designed for that purpose.

4. **Check that walls are properly patched.**

   You may also need to do some scraping and sanding to ensure that your new coat of paint adheres properly.

5. **Start painting.**

   Paint the unit in its entirety (yes, I mean walls, doors, door and window frames, baseboards, closets and closet dowels, and ceilings), unless you recently painted the whole unit and need to touch up only one or two walls. Lucky you!

TIP

If you have acoustic ceilings, be aware that these ceilings present special problems, particularly if they contain asbestos. Be sure to test for asbestos if you're not sure. Always consult a professional painter or licensed acoustic contractor before attempting to patch or paint an acoustic ceiling, and note that spraying paint is better than using a roller.

WARNING

Don't paint damaged surfaces and/or surfaces that show signs of moisture without determining the source of the problem and correcting it. Wet or moisture-damaged drywall indicates either plumbing leaks or water intrusion into the property's interior. The sooner you identify the culprit and make the necessary repairs, the better. If a slight stain remains after you resolve the problem and the surface is dry, try spraying the area lightly with a bleach mist to see whether the stain disappears. If not, you must paint.

6. **Replace everything you removed from your painting surfaces after the paint has dried.**

   Reinstall all the door hardware, air-vent covers, and electrical switch plates and outlet covers, replacing any that are damaged or covered with paint.

7. **Clean up any lingering mess.**

   Remove any paint that has strayed or splattered onto the floor, windows, countertops, cabinets, appliances, door hardware, air vents and woodwork. Don't use sinks or bathtubs for paint cleanup.

Final cleaning

Cleanliness sells, and the only people you want as renters are the ones who accept dirt in their homes only as a temporary condition. For many rental property owners, the thought of cleaning up after someone else is too much to bear. Luckily, many local cleaning services do a great job for a very reasonable price. ***Remember:*** You don't have to do everything yourself.

TIP

If you decide to clean the unit yourself, however, keep the following pointers in mind:

- **Pay particular attention to the kitchens and baths.** A dirty or grimy kitchen or bathroom can be a real turnoff to potential tenants. Be sure to clean and regrout the tile; completely caulk around all countertops and bathroom fixtures; and clean the single dirtiest spot in most rental properties: the shower-door track. For a final touch, install a new toilet seat, and place a paper sanitary ring around the toilet to indicate that it's been sanitized. This last step in particularly important in a post-pandemic world!
- **Focus on smell.** If a rental unit doesn't smell clean, it won't matter how diligently you've cleaned it. Rental property owners often overlook the importance of the sense of smell. Consequently, you can have a real advantage over the competition for an amazingly small investment by recognizing the value of this underappreciated sense. Here are a few ideas:
  - Use pine-oil or lemon disinfectant and cleanser to neutralize any bad odors left by previous tenants.
  - Place baking soda in the refrigerator and drains, and grind a lemon in the garbage disposal to suppress any odors.
  - Put a cinnamon stick in a shallow pan of water, and place it in the oven on low heat.
  - Go to your favorite big-box discount store to find affordable liquid potpourri, available in a variety of scents.
  - Avoid using certain fragrances that may be offensive to your prospective tenants. Too much use of scents may be distracting; your prospect may think that you're attempting to cover up a bad smell that will return. Remember that two of the most difficult scents to eradicate are cat urine and tobacco smoke, and because they permeate the carpet and wall and

WARNING

ceiling finishes, air fresheners will work only temporarily. Consult a professional for a better solution.

In a short time, your rental unit will be filled with pleasant scents that remind your prospective tenants of Mom and apple pie. Why? Because this is a time when you want to go with something with mass appeal rather than your personal favorite scent: essence of yak.

Carpet or floor-covering cleaning

Cleaning the carpet or floor covering is the last step in preparing your rental unit for new tenants. You can clean most floor coverings, such as laminates, linoleum or sheet vinyl, during the final cleaning stage, but you should let contractors with professional truck-mounted steam cleaning equipment handle carpet cleaning. The cost of professional carpet cleaning is very competitive, and you can't achieve the same results with the non-truck-mounted equipment that's readily available for rent at your local grocery or hardware store.

REMEMBER

Unless they're obviously damaged, thoroughly clean your floor coverings before deciding to replace them. The best choice in floor-covering material is determined by your tenant profile, your prospective tenants' expectations, and the competition in your area. Linoleum or sheet vinyl is very competitively priced, and the range of materials available is impressive, but laminates are in high demand if you can afford them. The most common problem with sheet vinyl is that any damage requires complete replacement. Some owners avoid using sheet vinyl and prefer individual floor tiles, which they can replace as needed, but these tiles quickly trap dirt at the seams and can look unsightly. Also, some laminates can be repaired if there is minor damage. Be sure to select neutral colors and basic patterns.

If the carpets are too dated, severely worn, or badly stained and damaged, replace them. Carpeting is a decorator item, and you should take care to select colors and styles designed for use in a rental property. I recommend selecting a standard carpet style in a couple of basic colors for all your properties. Although sculptured carpet works well for some units, a nonsculptured carpet with short nap (fibers) in one or two neutral colors has the broadest appeal. If you own a lot of rental units and have proper storage space, purchasing your standard carpet by the roll can offer significant savings. You can use the extra carpeting to patch or even replace a full room if necessary. Be aware, however, that each roll of even the same carpet style and color can be different because the manufacturer's dye lot may vary slightly each time the carpet is produced.

TIP

Many rental property owners make the mistake of purchasing a higher grade of carpeting and trying to save money on the carpet pad, but the carpet pad can make all the difference in the world. Consider using a higher grade of rebond padding with a medium-grade carpet for competitively priced, yet excellent results.

Using Outside Contractors

Determining how to handle the required turnover work in vacant rental units is one of the toughest decisions rental property owners have to make. Owners of large apartment buildings have maintenance personnel on staff and many contractors ready to assist them as needed. They routinely handle vacant units and just need to schedule the work. But owners of small rental properties are typically on their own to handle the work personally or locate contractors to prepare the vacant units quickly.

Even if you're inclined to do your own turnover preparation work, understand that certain maintenance functions requiring specialized or licensed training are best handled by outside contractors. It would be unwise for you to act as an exterminator or a contractor dealing with environmental hazards, for example, or to attempt to recharge the coolant in an air conditioning unit. Specific regulations are in place, and unique knowledge and licensing is required in these areas.

Your skill level, time constraints, and opportunity cost may help determine whether you do some chores yourself or hire a pro. Cleaning, painting, and light maintenance may be items that you feel qualified to handle, that you can complete promptly, and that you believe won't cause you to forgo significant income in other areas. When in doubt, let others do what they do best while you focus on what *you* do best: managing your rental property investment.

REMEMBER

Every day your unit sits vacant costs you rental income you can never recover. Painting a single-family rental home yourself may take you six days working in the evenings and on weekends. If the rental market is strong, and the daily rental rate is $50 per day, you're actually losing money you could've had if you'd hired professional painters for one day's work at $300.

Regardless of how much work you choose to handle yourself, you need to have a list of competent, competitively priced service companies and suppliers on hand for those times when you need a quick response. Your state or local affiliate of the National Apartment Association (NAA), Institute of Real Estate Management (IREM), or National Association of Residential Property Managers (NARPM) can provide names of service companies. Carefully check references and the status of any bonds or licenses with the appropriate government agency, and ensure that the company has the proper insurance in place before commencing any work on your property. (See Chapter 17 for more on the ins and outs of working with contractors.) If services exceed $600 in a calendar year, and the vendor isn't a corporation or limited liability company (LLC), you need to file Form 1099-NEC with the Internal Revenue Service.

IN THIS CHAPTER

- Determining the appropriate rent for your residential rental unit
- Setting and using security deposits wisely
- Selecting the type of rental contract to use

Chapter 6

The Big Three of Property Management: Rent, Security Deposits, and Rental Contracts

Before you begin to advertise and show your rental unit, you need to set your rent, determine the appropriate security deposit, and have a rental contract ready to go. Not sure where to start? Don't worry.

This chapter gives you some tips on figuring out what to ask for rent and deciding on your security deposit. It also guides you through the advantages and disadvantages of leases and month-to-month rental agreements, and recommends how to get the benefits of each.

Setting the Rent

Setting the rent is an important decision because your net income from your residential rental property is determined by the amount of rent you charge. Although you may be tempted to pull numbers out of thin air, resist that urge. If your rent is too high, you'll have difficulty renting your vacant unit. If your rent is too low, you'll always have plenty of prospective tenants but not enough money to cover your costs and generate a return on your investment. Finding the optimum price takes time and effort, which is why it's one of the most critical steps in being a successful rental property owner.

You can use two common methods to determine how much rent to charge: return on investment and market analysis. This section takes a close look at these two options and helps you figure out which method is better for you.

REMEMBER

Knowing how much money you need to break even is important for evaluating the potential return on your real estate investment. But the reality is that the amount you need or want to collect in rent is subject to market conditions, the desirability of and demand for your property, and your abilities as a rental property owner.

If you currently own a rental property, you probably already know how much rental income is necessary to cover your mortgage and other basic operating expenses. If you're looking to buy a rental property, determine your minimum income needs *before* the deal is final. If you purchase a property that already has tenants on a long-term lease, you don't need to address the issue of rent immediately, because the tenants' rent is set through the end of their lease. If they're not on a lease or have an expired lease, they're most likely on a month-to-month rental agreement — which requires you only to give sufficient written notice of a rent increase. (For more information on working with existing tenants, see Chapter 4.)

Whichever category you're in, you need to determine market rents so you can calculate the appropriate rent when it comes time to renew a lease or consider increasing rents to market level.

Examining the return on your investment

The first step in determining your rent based on the return on your investment is calculating your costs of owning and operating the property. Estimate costs for your mortgage, property taxes, insurance, maintenance, leasing, management, and profit on invested funds. If your annual expenses per rental unit are $12,000 for such fixed expenses as mortgage, insurance, and property tax payments and $7,000 for other variable operating expenses, and if you want a 10 percent ($5,000) annual return on your original cash investment of $50,000, you need to generate a total rent of $24,000 per year, or $2,000 per month. (This simple calculation

doesn't account for appreciation, increasing equity, or other tax advantages of real estate such as depreciation, of course, but it's a place to start.)

REMEMBER

Although you may have calculated that you need $2,000 per month to achieve your estimated break-even point (including your 10 percent profit), if comparable rental units are readily available for $1,750, you may not be able to achieve your financial goals fully at this time. In most real estate investments, initial returns often don't match original projections. In many areas of the country with higher-priced income properties, your rent in the beginning years may not cover your carrying costs for the property. Yet in the long run, rents often increase at a greater rate than your expenses, thereby improving the return on your investment. Also, cash flow is just one of several reasons why you may be investing in real estate. After the pandemic, owning real estate as an excellent hedge or strategy to maintain your purchasing power when higher inflation is a concern is certainly one good reason.

TIP

To avoid surprises, use a conservative budget that anticipates rental income of $50 to $100 per month *below* the full market rent for a comparable rental unit and also provides for a vacancy allowance of one full month each year. In my experience, some tenants don't fulfill their lease obligations, leaving you with a vacancy even if you had a 12-month (or even longer) lease.

If you feel that the comparable monthly rent for your property is $1,600, for example, estimate your rental income as no more than $1,500 per month. Then anticipate receiving this amount for 11 months rather than 12. After allowing for one month of vacancy, your gross rental income projection falls from $18,000 annually to $16,500. Yes, this method is a very conservative way to calculate your cash flow from your pending real estate purchase, but even if you purchase the property based on more aggressive numbers, this good but less-than-ideal-case scenario gives you an idea of the range.

WARNING

Many new rental property owners make a major mistake by overestimating potential income from their property. They develop unrealistic operating budgets or projections by using above-market rents, not allowing for rental discounts, and anticipating virtually no vacancy or bad debt. This approach is often the result of overly optimistic information provided by the seller or their real estate agent. I've seen many income property sales flyers show estimated income and expense projections for potential buyers that simply aren't accurate. If the rental rate is so far below market, why didn't the current owner raise the rent before selling and ask for a higher sales price? Often, the reason is that the current rent really isn't that far below the market rent or that the tenant will demand expensive upgrades if the rent is going to increase to the top of the market.

In addition to overestimating potential rental income, some rental property owners make the mistake of calculating property taxes based on the taxes the previous

owner paid rather than on their own purchase. Sellers and real estate agents often use historical taxes in their cash-flow analysis, attempting to create the illusion that the net income from the property is greater than it actually is. When the property you purchased gets reassessed at a higher value based on your purchase price, the property taxes will go up, and your investment will not be as profitable as you have been led to believe. If the difference is significant, an owner could face negative cash flow and the possibility of losing their rental property. Avoid this situation by playing it safe and staying conservative with your estimated income; be sure to use a property tax expense number that reflects the actual amount you will pay as the new owner.

TIP

Setting the rent is particularly critical if you own single-family or condo units and other small rental properties, because the rent loss from an extended vacancy or one bad tenant can seriously jeopardize your entire investment. If you're among this group, be conservative in setting your rents, cautious in screening tenants, and aggressive in rent collection, and keep your properties in excellent condition to attract good long-term tenants who pay on time. When analyzing these types of investments, pay particular attention to any major items that will need replacement in the near future, such as the roof, pavement, flooring, appliances, water heater, and mechanical equipment used for heating and cooling.

WARNING

Regarding rental units in common-interest developments, such as condominiums or townhouses, look carefully at the financial health of the governing association. Lots of good deals appear to exist in condo or townhouse communities with a homeowners' association because of short sales or foreclosures. But a downside is that the owners of these distressed units aren't paying their mortgages, property taxes, or association dues and assessments. The governing association may not be collecting sufficient revenue to cover their operating expenses in the short term and may not be allocating the necessary reserve funds for long-term capital items that will need attention in the years to come. The association may defer current operational and maintenance expenses, which negatively affects the aesthetics of the community and increases the need for major capital expenses in future years. The budget shortfalls will likely result in special assessments to be paid by the paying homeowners until all the distressed units have been resold. Investing in such associations can dramatically affect your investment.

Conducting a market analysis of rents in your area

You can determine the amount of rent to charge by calculating a desired return on your investment and setting the rent accordingly (see "Examining the return on your investment" earlier in this chapter), but typically, the best way to set your rent is to conduct a market survey of comparable rental properties in your area. Why? The answer is simple: Most rental markets have a limit to what

prospective renters will pay for a comparable unit, and tenants don't care how much you paid for the unit or how much you spend in operating and capital improvement costs.

REMEMBER

The easiest way to learn the range of current rental rates for comparable and similar rental units is to shop for one in your local market. Search online for properties currently available for rent that match up with the rental unit you plan to rent. You should be able to find a lot of general information on, Apartments.com (`www.apartments.com`), Realtor.com (`https://realtor.com`), Rent.com (`https://forrent.com`), Zillow.com (`https://zillow.com`), and similar sites. But there's nothing like actually seeing the competition firsthand. if you want to see what a prospective renter sees when they visit your competitors, as well as get more detailed information about your competitors' strengths and weaknesses, the following are two schools of thought about performing a rent survey to determine the proper asking rent for your units:

- **Pose as a prospective renter, and ask all the typical questions a prospect may ask.** The owner or manager will give you only the information about the property that a prospective tenant needs.
- **Be honest, and tell the owner that you're a rental property owner doing market analysis.** This method is the one that I recommend, particularly if you have a small rental property. Most rental owners will cooperate and share the information you need. They may even be willing to give you additional important information you can't get otherwise, such as the length of time their units have been vacant, the number and types of online inquiries or phone calls they've received to date, the actual occupancy rate for the properties, and the feedback from their own research into rental rates and vacancies in the local market. This behavior is especially true if they've recently rented their properties and are no longer competing with you for prospective tenants.

Keep in mind that the owners of competing large apartment communities probably won't provide you any information about their current occupancy rate. This number is important, however, because it indicates overall demand for rental units in the market. The more-advanced property management software that top owners and property managers use today have features that track the market rent over time and suggest not only the rent for a new tenant, but also the proper lease renewal market rental rate. These tools can be great but are practical only for owners of large rental properties or property management companies.

For small rental property owners and property managers, I've discovered some creative ways to determine vacancy levels that won't break your budget:

- Talk with the mail carrier who delivers to the complex; they can tell you whether the property is completely full or relatively vacant.

- Ask a common vendor, such as a carpet-cleaning firm or pest-management professional (exterminator), that services your property and the large apartment complex for the inside information you need.
- Drive through the property at night to see how many parking spaces are being used and how many apartments appear to be occupied (lighted).

TIP

To determine the rents in your market, do your homework by locating comparable rental properties. *Comparable properties* are those that your tenants are most likely to have considered when looking for a rental unit. These properties may be located right in the neighborhood or all the way across town. Many of your rental prospects may work at the hospital located six blocks directly west of your property, but they're just as likely to choose a rental within six blocks of the hospital in another direction, so your comparable properties can be 12 blocks or more away. Don't assume that your comparable properties are solely in your own neighborhood.

If your property is a single-family home or condo unit in a large housing development or a community with identical or similar floor plans, you may find that your primary competition is the same model (or a similar one). Use online tools or call around to determine the current rental rates of occupied and vacant units that are now on the market (especially helpful: those just recently rented), and you'll get a good range of rents to consider. Every property is unique, however, and many aspects of each property can make the rent higher or lower than it is at other nearby properties.

After you determine which rental units are comparable, finding out the current market rent is easy. Begin by checking online; then drive around and find "For Rent" signs in your area before calling for the asking rent and other details. In rural areas, the local or regional newspaper still might have old-fashioned ads listing the units for rent in the area. But in most urban areas, online resources are where you can mine a lot of important data that will really help you set the proper market rent. Although searching online or even calling about ads gives you some good general information, you need to see the properties in person to truly determine whether they're comparable to yours.

WARNING

Be careful to distinguish between the asking rents you are quoted online versus what you see on property signs or are told when you call. Many landlords (especially those with single-family homes or condos) can be negotiated down from the asking rent pretty easily. Most owners of individual rental units can't afford vacancies for more than a couple of weeks and will lower the rent quickly if qualified prospects show interest in their properties, so you need to base your decisions on signed leases, not asking prices.

TIP

What you really need to know is what the market is willing to pay for a unit that's comparable to what you have to offer. Three possible sources are Realtor.com, Trulia.com and Zillow.com, which show both the rental value and the sales value of a given property. In many communities, the Multiple Listing Service (MLS) post rentals and what rents were paid when the units were occupied. This information is proprietary to subscribers but becoming more available to the public. If you're unable to pull that data for your community, contact a Realtor or potential management company to get it for you. A Realtor may be willing to do so for a nominal fee.

Rental rates can vary greatly from neighborhood to neighborhood and even from street to street because many factors affect rents, including the following:

- Landscaping
- Property features, such as location, age, and amenities
- Rental unit features (upgraded finishes, washer/dryers, and so on)
- Proximity to services and transportation
- Reputation of the neighborhood or property
- Access control to the property for vehicles and/or pedestrians
- Traffic noise
- Views

As a result, determining the proper asking rent isn't scientific. Setting your rent a little too high at first is better than setting it too low, because you can always reduce your asking rent slightly if you encounter too much resistance. Be honest, of course, and make downward adjustments for aspects of your property that aren't as competitive or desirable as those of the comparable properties in your area.

Be willing to make necessary adjustments quickly. If you get no response — or even lots of responses but no confirmed rentals — you need to adjust something, such as the curb appeal or condition of your property, or the rent level. You need to step back and take a hard look at all aspects of your property, your marketing and advertising, and your rental rates.

REMEMBER

When estimating the proper market rent for your unit, be careful not to make adjustments based strictly on your personal preferences. You're probably *not* representative of your target market. The rental value of a particular property is subjective and can vary dramatically from one person to another. You may prefer upstairs units, for example, and believe that they should be priced higher than comparable downstairs units. Although many prospective renters may agree with you, just as many prospects may value a downstairs unit because they may not want to climb stairs.

TIP

To access a sample market survey form for comparing your rental property with other properties to determine an appropriate rental rate, go to www.wiley.com/go/propertymanagementkitfd4e.

To conduct an accurate market survey, you really need to visit the properties to experience what your prospective renters see, hear, smell, and feel. Visiting properties takes time and energy, but the results are well worth the effort.

The following sections break down some additional items to think about when conducting your market analysis.

Considering rental concessions in determining your rent

When you contact other rental property owners or managers to determine the *effective rent for your property* — actual net rent after all concessions and discounts — be prepared to receive a rent quote, but don't expect to hear about rental concessions. A *rental concession* is basically a discount given to entice a prospective tenant to sign a rental contract. Landlords tend to give concessions in softer real estate markets where the demand for apartments has slowed, so identifying potential concessions is important in your comparison, because you need to know what the net or actual collected rent is. If you don't, you may overprice your rental units.

Some areas of the country rely heavily on concessions more than others, where just offering a lower or net rental rate is the norm. You need to know what is most commonly used by your competitors; otherwise, you could find that you have trouble attracting prospects. If your market expects concessions, even if your rent is very reasonable some prospects will be expecting you to offer some sort of concession. Or if net rental rates are typical in your market area, advertising much higher asking rents with concessions may not get you calls from prospects who see your competitors' lower or net rental rates.

TIP

To find out the actual effective rents with concessions included, I recommend that you contact rental property owners or managers after they've rented their units and concluded their marketing efforts. When their properties are occupied, they're more likely to cooperate and give you accurate, complete information regarding their agreed-upon terms.

Calculate the effective rental rate by dividing the total rent by the length of the rental period. ***Note:*** Various concessions may affect the total rent. Suppose that a competitive property in your area recently rented for $1,200 per month on a one-year lease, but the first month's rent was waived. Then the total rent paid in 12 months is $1,200 per month for only 11 months, or $13,200. To find the effective rent, divide the total rent of $13,200 by the 12 months of the lease: $1,100 per month.

Without knowing about the rental concession, you may mistakenly think that the comparable unit rented at $1,200 per month. As a result, you may set your asking rent too high or be hesitant to offer your own rental concessions to stay competitive with what you think is a higher price. Just remember that every day your unit sits vacant because your rental rate is higher than the competition's is money lost.

You can calculate your daily lost rent by dividing the monthly rent by 30 days. So with an asking rent of $1,200 per month, you're losing $40 every day that your property sits vacant, and you'll never recoup that lost income unless you can rent your property for a higher rent than $1,200 per month. This calculation can be helpful as you consider offers at a lower rent or a request for a concession from prospective tenants.

Deciding whether to market your rental property using gross rents or net rents

After completing your analysis of your local rental market and taking into consideration any concessions, you need to set your final asking price. You can do so by formulating a marketing strategy to ensure that you get the best price for your rental property.

Here are your options:

- Quote a higher gross asking rent, which is similar to the suggested retail price that stores use, and then offer rental concessions to attract the attention of your target market.
- Go with a lower effective asking rent that is the net of the rental concessions prevalent in the market.

If you like to negotiate and can sell the special offer, the gross rent method is for you. Some prospective tenants are attracted by rental concessions — at least, that's the impression I get when prospects call about a property and the first thing they ask is "What's your special?" Be sure to watch out for tenants who are just looking for the special discount off the rent up front. because they likely aren't the long-term quality tenants you want (and need) to be a successful rental property owner. These renters may be out looking for another deal as soon as they're able and tend to treat the property with less care.

TIP

Have you heard about the great bargains available on air travel, hotel rooms, and cruise vacations booked at the last minute? Well, the concepts of inventory management and lost revenue also apply to the rental housing industry. Units that sit vacant for too long are usually overpriced, and each day that passes with your property vacant is more lost rent you can never collect. Either reevaluate your

asking rent or concessions, or see what you can do to make your rental unit superior to the competition to secure those long-term tenants.

Are you not into wheeling and dealing? Perhaps you prefer telling your prospective renters that, unlike all the other landlords who offer gimmicks and special deals, you're all about cutting the hype and offering the best net monthly rental rate. In my experience, many tenants find a lower, straightforward rental rate quote to be more attractive, especially if they plan on staying for a long time.

WARNING

Regardless of which marketing strategy you use, avoid the temptation to set your rent based on the number of occupants your unit can hold. Some landlords have a policy that the base rental rate is for a certain number of tenants and then charge more for each additional tenant in the unit. This practice is sometimes called *per-head* rent. The U.S. Department of Housing and Urban Development, however, considers such policies to be violations of the Fair Housing Act. The only exception is if you can show a legitimate *business necessity* — a verifiable increased cost to maintain your rental property, such as higher water or sewage bills. If you think you can prove a business necessity, check with your legal expert before setting rents. Otherwise, take my advice: Never determine your rent on the number of occupants, and avoid these turbulent waters.

Ultimately, your marketing strategy may be influenced by what's most commonly done in your local market, but don't be afraid to incorporate your personal style.

Coming Up with a Fair Security Deposit

As an owner of rental property, you need to make sure that the security deposit you collect adequately protects you from tenant damage or default. The security deposit serves as the protection you need before turning your real estate asset (the rental unit) over to a tenant. It needs to be large enough to motivate the tenant to leave the property in good condition, and it needs to serve as an accessible resource that covers any unpaid rent or reimburses the costs of damage repair. If you set the deposit too high, many qualified tenants may not be able to afford the move-in costs, resulting in fewer applicants.

State laws typically limit the amount of the security deposit you can collect, and they regulate its return, along with any lawful deductions. If you collect the first month's rent upon move-in, this money is *not* considered to be part of the security deposit. Some states specifically allow certain small-rental owners to be exempt from these rules. Go to `www.wiley.com/go/propertymanagementkitfd4e` for more information on state laws about security deposits (including the maximum amounts you can request and the time limits to return deposits).

The next several sections help you determine the right amount for your security deposit.

Figuring what you can legally charge

Many states limit the security deposit to the equivalent of one or two months' rent. The limit varies in each state depending on certain factors, such as whether the rental is furnished, whether the tenant is on a lease or a month-to-month rental agreement, whether the tenant has pets or a waterbed, and whether the tenant is a senior citizen. As you'll quickly discover, the laws affecting rental properties vary widely from state to state (and sometimes even from city to city), so always check with a resource that applies to the specific jurisdiction where your property is located. One size does *not* fit all when it comes to rental property laws and regulations.

TIP

In most rental markets, the security deposits are well below the maximum allowed by law. I recommend that you stay within the legal limits but collect as large a security deposit as the market can bear. A security deposit is rarely an adequate insurance policy against the damage caused by poor tenant selection. The better job you do of selecting tenants, the less you'll need to dip into your security deposits for repairs and replacements at the end of their leases.

Security deposits are more than just money you hold for protection against unpaid rent or damage caused by tenants. Although the actual cash amount may be relatively small compared with the overall value of your property, the deposit is a psychological tool that's often your best insurance policy for getting your units back in decent condition.

WARNING

When you're trying to determine how much security deposit to charge, make sure to avoid the following potentially costly mistakes:

- **Don't lower the deposit or waive a deposit payment.** If the funds required to move in are too high, collect a reasonable portion of the deposit before move-in, and make a written agreement that allows the tenant to pay the balance of the deposit in installments. This type of agreement usually indicates that any funds the tenant pays are applied to the deposit first and then to the rent. Don't allow the tenant to miss or delay payment of any subsequent security deposit installments. Take legal action immediately if the tenant misses any security deposit payments or fails to pay the rent in full.

  For single-family homes, I strongly advise getting as large a security deposit as possible. Aside from the inherent increased value of the rental home itself, you likely have tremendous value in the grounds, landscaping, and pool or spa (if applicable), so tenants can damage much more of your valued

property. Also, owners of rental homes tend to inspect or visit their properties less frequently, and it takes only a few weeks of inadequate watering or shoddy landscaping maintenance to find that the properties have suffered significant damage. See Chapter 18 for advice on ways to persuade tenants that landscaping or pool/spa maintenance is best left to professional contractors.

- **Don't eliminate security deposits.** Property owners in *soft* (low-demand) rental markets often offer free rent or "no security deposit" move-in specials. Prospective renters who are attracted by such offers typically aren't the types to become stable, long-term tenants who treat your property with respect and care about peaceful, harmonious living with their neighbors.

TIP

Although staying competitive is important, I recommend avoiding free rent or "no deposit" specials whenever possible. One way to lower the up-front move-in or out-of-pocket costs for a prospective tenant while motivating them to take care of your property properly is to offer to pay the security deposit. This way, you still receive the first month's rent when your tenant moves in, and they may receive a deposit refund if the property is in good condition at move-out. Essentially a form of free rent (because you're crediting the tenant, not keeping the money), this strategy reduces the total funds your incoming tenant must pay. Unlike in a risky move-in special, you're offering the real benefit of the concession at the *end* of the lease, not the beginning. As a result, you're less likely to attract tenants who move from landlord to landlord in search of up-front freebies. You also have a better shot at creating a strong psychological and practical motivation for the tenant to fulfill the terms of their lease. Why? That security deposit cash comes in handy for covering the costs of moving to a new residence . . . after several good years at your property, of course.

Keeping security deposits separate from your other funds

Security deposits are liabilities from an accounting point of view because they legally belong to the tenant. You hold them in trust as protection in case the tenant damages the property or defaults in paying rent.

Because the funds don't belong to you, several states require you to hold security deposits in a separate bank trust account instead of mixing them in with other funds from your rental properties or personal resources. Some states even insist that you provide your tenant a written notice indicating the location of this bank trust account at the beginning of the tenancy.

TIP

Keeping the deposits separate from the rest of your funds means that they're readily available whenever a tenant moves out and is potentially entitled to the return of some or all of their money. Doing so, even if not required in your area, can be a great way to avoid cash-flow problems. Suppose that a tenant fulfills all contractual obligations before move-out and deserves a deposit refund. If you commingled their deposit with your personal funds, you may find that your current cash availability can't cover a large deposit refund within the short time frame required by law in most areas. This situation can lead to legal action by the tenant and additional penalties and interest. The lesson? Always have available funds to cover the potential refund of all security deposits.

Avoiding nonrefundable deposits

A *nonrefundable security deposit*, which is allowed in some states, is a portion of the deposit that you, the property owner, retain no matter what state law allows as a proper deduction. In other words, in some states, even if your tenants leave the rental unit in perfect condition, there's a nonrefundable cleaning fee. A nonrefundable security deposit may sound like a good idea, but it may also send a message to tenants that they've already paid for cleaning or that they have to pay for the costs of preparing the property for the next tenant. My 40 years of experience with tenants leads me to question the benefits of nonrefundable security deposits in most instances, because the incentive is gone for tenants to keep and maintain the property in the best condition.

In fact, I recommend avoiding nonrefundable fees in general in favor of seeking a higher, fully refundable security deposit so that you have funds to cover damage repairs and cleaning, if necessary. It's a good day as a rental owner or property manager if your tenant vacates and leaves the property in good condition, so I prefer to make the entire deposit refundable.

Approximately a dozen states have laws permitting rental property owners to have nonrefundable security deposits or fees. These fees cover the costs of services such as cleaning, repainting, and redecorating. Some states have very specific limitations on these deposits or fees and don't allow you to charge for any excessive costs incurred. On the other hand, several states don't have laws specifically prohibiting nonrefundable deposits, leaving such decisions to the mutual agreement of the owner and the tenant.

Regardless of where you live, avoiding the use of nonrefundable deposits allows you to avoid potentially time-consuming disputes with your tenants, such as what happens if the $150 nonrefundable cleaning deposit is insufficient to cover the $250 cost of cleaning a filthy rental property.

LAST MONTH'S RENT

For many years, many rental property owners collected the first month's rent, the last month's rent, and a security deposit from new tenants,— a method that has some disadvantages. I strongly recommend that you collect the first month's rent plus a security deposit equal to or greater than one month's rent, because collecting the last month's rent can create unnecessary problems.

If the rental rate increases during the tenancy, and you've already collected a lesser amount as the last month's rent, upon move-out, the tenant (and often the court) will likely take the position that the last month's rent has already been paid in full, even though the rental rate has increased. When giving rent increases, many owners fail to require the tenant to increase the amount held as the last month's rent. Also, in some states, the designation of last month's rent limits your use of these funds to that specific use. Thus, even if the unit is extensively damaged and the security deposit is fully exhausted, you can't use the last month's rent to cover those damages.

Make your security deposit an amount that's different from the monthly rental rate to minimize the chance that your tenant will presume that the deposit covers the last month's rent. Ideally, you can collect a deposit that's higher than the monthly rental rate. But even if you collect a deposit that's $25 to $50 less than the monthly rent, you effectively eliminate a tenant's attempt to claim that the deposit was for the last month's rent.

Paying interest on security deposits

Although the extremely low interest rate environment of the past several years has minimized this issue for both landlords and tenants, several states have laws requiring rental property owners to pay interest on a tenant's security deposit. You can find some basic information about security deposit interest at `www.wiley.com/go/propertymanagementkitfd4e`, but check with your local affiliate of the National Apartment Association for the exact requirements in your area, because the laws differ dramatically from state to state.

The method of calculating interest varies greatly, with some states providing a formula tied to the Federal Reserve Board rates or flat percentage amounts. Most states require interest payments to be made annually and at termination of the tenancy. With the record low interest rates over the past decade, the issue of security deposit interest is not as significant as it once was, and many states no longer require interest to be paid on tenants' security deposits. But with inflation looming in our post-pandemic economy and the serious prospect that interest rates will rise, interest is bound to become an issue again.

TIP

No laws prevent you from voluntarily paying interest on deposits, and some owners offer to pay interest as a competitive advantage or an inducement to collect a larger security deposit. If you're able to get a much larger deposit (but still not above the maximum allowed in your state), I recommend paying a slightly above-market interest rate on the funds. A good tenant who's confident that they'll leave the property in excellent condition can earn a higher return on their money. The additional peace of mind and readily available cash resource to cover excessive damage is certainly worth much more than the relatively small amount you'll pay in interest.

Increasing (or decreasing) deposits

If you have a long-term tenant, and you've increased your rents significantly over time, you may want to consider increasing your security deposit amount. This move is legal as long as you comply with the normal requirements for any change in the rental agreement's terms.

If you have a fixed-term lease in effect, for example, you must wait until the lease expires or rolls over to a month-to-month rental agreement before increasing the deposit. If you have a month-to-month rental agreement, you can increase the deposit the same way you raise the rent, typically by giving the tenant a written notice 30 days in advance. Either way, remember that you're subject to the maximum security deposit amounts set by state law, if any.

It may seem counterintuitive at first, but you may also find that you want to decrease your tenant's security deposit. You may have a tenant who has been with you for years, keeps the rental unit in immaculate condition, and pays the full rent like clockwork. But the market rents keep increasing, and you want to keep your rents at market level. Lowering the security deposit is a way to cushion the blow of the higher rent and improve your chances of retaining this solid tenant.

Considering security deposit alternatives

Over the past decade, security deposit alternatives have become available; the property owner or property manager can offer these alternatives to prospective tenants in lieu of the traditional cash security deposit. These can be considered an amenity or competitive advantage by allowing lower move-in costs, or as another risk management tool at properties with challenges of high delinquent rent or property damages. Although a property owner or property manager is not required to accept a security deposit alternative, legislation in a few states encourages the acceptance of alternative security deposits.

Alternatives include surety bonds. The tenant pays a premium for a bond that is held for the benefit of the property owner until the tenant vacates the property without any damage. The amount of the surety bond should not exceed the maximum security deposit allowed by state law. The property owner or property manager must comply with all aspects and procedures of security deposit laws just though if the security deposit had been paid in cash.

If there is unpaid rent or damage beyond ordinary wear and tear, the surety bond company will pay the property owner for eviction legal fees, any damage beyond ordinary wear and tear, and the unpaid rent claim. The surety company will seek reimbursement from the tenant and will take legal action against the tenant for any funds not paid voluntarily.

When considering offering surety bonds in lieu of cash security deposits, be sure to evaluate the qualifications, experience or track record, and financial strength of the agent who sells this product. The agent is responsible for providing all information and collateral materials, enrolling the prospective tenant, and collecting the surety bond premium. The claims process is the same as what is required to be provided to the tenant as part of the documentation supporting the security deposit accounting.

More recent alternatives to the security deposit are essentially insurance policies. The incoming tenant pays a monthly premium, and when the tenant moves out, the property owner can make a claim for unpaid rent or property damage beyond ordinary wear and tear.

The companies that offer these security deposit alternatives claim that their products give the property owner an advantage. They claim offering security deposit alternatives will significantly increase the number of rental prospects based on the reduction in the up-front cash required to move in through the use of the surety bond or insurance in lieu of a cash security deposit.

Whether a traditional security deposit paid in cash or one of the newer security deposit alternatives make sense for you will depend on several factors, but the customary security deposit amount for your area will certainly be one of the most important factors. If the cash security deposits in your market are very high (more than a full month's rent), the use of a surety bond or insurance would be more attractive to a prospective tenant, and it might be a marketing advantage to you to accept these alternative forms of security deposit. If the cash security deposits in your area are less than a full month's rent, the benefits aren't as significant.

If you consider using an alternative security deposit provider, be sure that you fully understand the documentation requirements, limitations, and timeline for making your claim if the tenant vacates with unpaid rent or causes property damage beyond ordinary wear and tear.

Some alternative security deposit products cover large amounts of unpaid rent but relatively low levels of damage. One well-known company offers lease insurance to property owners and property managers with large portfolios that require the tenant pay a monthly deposit waiver fee. This lease insurance is available at different levels of protection for the property owner for unpaid rent ($2,500, $5,000, or $7,500), but the property damage is always limited to $500. My concern is that $500 in property damage is relatively modest; as most experienced property owners will attest, it doesn't take much for a tenant to cause more than that amount of property damage if they're not motivated to return your rental unit in good condition minus ordinary wear and tear.

If some tenants reason that their own money isn't on the line, they may not be cautious and careful with your rental property. Providers of alternative security deposit providers will say that they'll seek reimbursement from the tenant for any funds paid out to the property owner. But with a $500 limit on damages and a fixed limit on unpaid rent, you might get your property back trashed, and $500 coming from the alternative security deposit provider won't come close to covering the true loss.

Choosing the Type of Rental Contract You Want

Another important decision you need to make before you begin advertising and showing your rental is whether you want to use a lease or a month-to-month rental agreement. The rental contract, whether it's a lease or a month-to-month rental agreement, is the primary document that specifies the terms and conditions of the agreement that binds the property owner and the tenant. It's a contract between the owner and the tenant for the possession and use of the property in exchange for the payment of rent. The following sections give you the lowdown on the two types of agreements.

Contemplating a lease

A *lease* is a fixed-term contract that obligates you and the tenant for a set period. Some owners like the commitment required from leases. Although leases can be any length, the most common terms are 6 months, 9 months, or 12 months. The majority of leases are written to convert to a month-to-month rental agreement automatically after the expiration of the initial term. Some leases are for fixed terms, however, and the owner and tenant must agree to sign a new lease for the tenant to stay.

A lease is advantageous for tenants because it's usually written to lock the rent and all the other terms in place for the term of the lease, and it's potentially advantageous for you because you can theoretically count on having a tenant for a set period. It may also be advantageous for you in a soft market, where good residents are hard to find and economic conditions are forecast to be weak for an extended period.

TRUE STORY

Rental property owners generally charge a lower rental rate for leases than for month-to-month rental agreements because tenants on a lease aren't associated with as high a risk of turnover as those on short-term agreements. Yet in the 20 years I wrote a nationally syndicated landlord–tenant column, I received hundreds of inquiries from tenants asking for a compelling story or legal argument to break their long-term leases. This question was the single most common one in those 20 years. Whether just wanted the lower up-front cost of a lease or their personal needs changed, all of them wanted out of their long-term commitments. So be cautious. Don't offer a discount of more than $10 to $20 per month for long-term leases unless local market conditions warrant a higher amount.

REMEMBER

With a lease, you can't increase the rent or change other terms of the tenancy until the lease expires. Also, you can't terminate the tenancy before the lease expires unless the tenant doesn't pay the rent or violates another term of the lease. Should you wind up in court, you'll have the burden of proof, meaning that you have to prove the tenant didn't live up to their part of the contract (which can be difficult for issues other than the payment of rent).

Although the lease legally binds both you and your tenant, the current landlord–tenant laws in virtually every state favor tenants. A tenant can walk away from a lease without difficulty, and in most states, the owner has the duty of mitigating or minimizing the potential damages. This legal mumbo jumbo means that you must make a reasonable effort to rerent the premises and can charge the vacating tenant only for the costs of marketing the property and any unpaid rent incurred until the new tenant begins paying rent.

Eyeing a periodic rental agreement

Some owners prefer the flexibility of a month-to-month rental agreement to the rigidity of a lease. A month-to-month rental agreement is essentially a 30-day lease that automatically renews each month unless the owner or tenant gives the other proper written notice (usually, 30 days) to terminate the tenancy. Month-to-month rental agreements give you much more freedom than leases because you can increase the rent or change other terms of the tenancy on 30 days' notice. You can also easily modify them for short-term rentals by converting the rent payment period from monthly to weekly or biweekly.

Month-to-month rental agreements have their downsides, of course:

- You don't know or control when your tenants will leave, so you could have a vacancy during a slow rental market when it will take longer for you to rerent the property.
- Your tenants may be concerned about the possibility of changing rental rates or policies.
- Your tenants may worry about having to relocate on short notice, leaving you to wonder whether you're likely to have a tenant locked in for a certain lease term.
- Your tenants may not like moving and want to stay somewhere long-term.
- Frequent rent increases may serve to irritate your tenants and stimulate them to move sooner than they anticipated.

Although the month-to-month rental agreement does allow your tenants the right to move at any time merely by giving 30 days' written notice, the reality is that most tenants don't like to move and often stay long-term. The majority of tenants move only because of a job transfer or another significant reason, or because the rental owner doesn't maintain the property properly.

WARNING

The wide variations in laws regarding notice requirements for changing or terminating month-to-month rental agreements clearly illustrate the importance of knowing your state and local landlord–tenant laws. Some states don't have any statutory requirements for giving notice; others mandate a time frame such as 10 or 15 days. The majority of states require 30 days' notice, and some require less under certain circumstances. But four states (California, Delaware, Georgia, and Hawaii) currently require property owners or managers to give more than 30 days' written notice when changing agreement terms or terminating a month-to-month tenancy. In California, for example, property owners with tenancies greater than one year must provide a 60-day termination notice, whereas the tenant needs to provide only 30 days' notice. Check out `www.wiley.com/go/propertymanagementkitfd4e` for more information on state landlord–tenant laws, and acquaint yourself with the laws in your particular area. During the pandemic, many states and municipalities passed new landlord–tenant laws, many of which remain in effect or became permanent law, so even seasoned rental property owners may find themselves subject to many new laws (and don't want to violate them).

Get familiar with and respect the types of agreements typically offered in your local rental market. If competing properties are offered on month-to-month rental agreements, you may find it difficult to attract plenty of well-qualified rental applicants if you insist on a 12-month lease.

TIP

A hybrid strategy can make sense in your area. You begin all new tenants on an initial 12-month lease and then roll over to a month-to-month rental agreement. You enjoy the advantages of the minimum commitment of a full year, but you have the flexibility of the month-to-month term for rent increases and can ask the tenant to vacate should problems develop.

Getting your contract in writing

Never allow a tenant to take possession of your rental property without fully executing your written rental contract. Some tenants refuse to sign documents, so they can claim that they had a verbal agreement that's much different from the one you had in mind.

TIP

For a sample standard lease agreement and month-to-month rental agreement, go to `www.wiley.com/go/propertymanagementkitfd4e` Be sure to have an attorney who specializes in landlord–tenant law review these documents (and all other forms from this book) before you use them. In some states, special language must be included in these documents. Florida requires language about radon, for example, and many states require information that must be given to tenants concerning access to a sexual-offender or child-molester database.

Standard lease forms are great, but many don't allow you to add your own clauses. You can modify the terms of your rental agreement fairly easily with an addendum to your lease or rental agreement, however. Perhaps you want to add the requirement that the tenant acknowledge receipt of the rules and regulations of the community or homeowners' association and is responsible for any fines or assessments resulting from a breach of the rules. You can easily incorporate this condition into the lease by using the addendum. Go to `www.wiley.com/go/propertymanagementkitfd4e` to access a sample addendum to lease or rental agreement

REMEMBER

Be careful about adding clauses or language to your lease or rental agreement without seeking the advice of an attorney.

Although oral rental agreements of up to one year are binding, make sure that all your leases or rental agreements are in writing, because many issues surrounding those agreements involve monetary considerations. Memories fade, and disputes are usually resolved in the tenant's favor if legal action is required and written proof to the contrary can't be found. Courts expect the property owner or manager to operate their rental housing business in a professional manner and to have clear documentation at all times.

SEEKING THE BEST OF A LEASE AND A RENTAL AGREEMENT

In my experience, the number-one reason why tenants insist on a lease is that the rent is locked in for a minimum period. But in most instances, especially in rental markets where rent increases aren't likely, owners want the flexibility and latitude afforded by the month-to-month rental agreement. If the tenant doesn't abide by the lease's terms, they can simply terminate the rental agreement without having to prove the breach in a court of law.

Despite this discrepancy in desires, it's possible to achieve both goals. I strongly recommend using a month-to-month rental agreement in conjunction with a rental rate guarantee certificate. (You can see a sample at `www.wiley.com/go/propertymanagementkitfd4e`.) This method gives your tenant the benefits of a stable rental rate for a minimum period *without* restricting your ability to change other rules or even ask the tenant to leave in 30 days if problems arise.

If your local market conditions dictate a longer fixed-rent term than what's indicated on this certificate, you can make an even more significant impression on a great prospective tenant by using a black marker or felt pen to clearly cross out "six months" and fill in a longer term. Be sure to print this certificate on specialty paper to give it a valuable look.

Oral agreements create the potential for charges of discriminatory treatment. Always put all terms and conditions in writing, even if you intend to have only a short-term agreement or if you know the tenant personally. Oral agreements often can't be substantiated and aren't always enforceable.

IN THIS CHAPTER

- Knowing your target market and creating your marketing plan
- Seeing how advertising can increase your rental business
- Getting acquainted with fair-housing laws

Chapter 7
Formulating a Marketing Plan

More than almost any other single item, locating, attracting, and renting to good-quality tenants make your experience as a property manager enjoyable and profitable. But finding a good tenant can be challenging if you don't know how to do it.

In this chapter, I take you through the process, from creating a marketing plan (which helps you narrow your focus and set goals) to making sure you don't make any mistakes that could lead to issues related to violations of fair-housing law. Start here if you've just learned that one of your rental units will be vacant in a month or if you've already had a vacancy longer than that. It's never too late to start advertising effectively, and in this chapter, I give you all the tools you need.

Developing a Successful Marketing Plan

A marketing plan can be anything from a formal written outline of your marketing strategies to some general marketing ideas you keep in mind as you try to find renters for your property. If you own only a couple of properties, or 20 or 30 rental units in scattered or multiple locations, you may not think that you need a

marketing plan. Developing a plan may seem like an unnecessary use of your time and energy. But the basic concepts of a marketing plan are important for all rental property owners, regardless of the number of units they own.

The key to success in owning and managing rental properties is keeping your units occupied with long-term, rent-paying tenants who treat your property and their neighbors respectfully. But first, you need to determine the best way to attract and retain these highly desirable tenants. The following sections help you develop a marketing plan to do just that.

REMEMBER

A good marketing plan provides strategies for attracting prospective tenants as well as retaining your current ones. Keeping your current tenants is so essential to your long-term success as a rental property owner that I devote Chapter 14 to discussing a variety of strategies that will maximize your ability to make it happen.

Determining your target market

One of the first steps in developing a basic marketing plan is determining the target market for your rental property—the rental prospects who are most likely to decide that your rental unit meets their needs. This market can be relatively broad or fairly narrow, depending on your property's type and its location, unit size, age/condition, rental rates, amenities, and features. If you have multiple rental properties, each property may have a different target market, or the target markets for one or more of your properties overlap.

REMEMBER

Finding responsible renters is often a numbers game. The more prospective renters you're able to attract, the greater opportunity you have to evaluate their qualifications carefully and select the most qualified applicants.

To identify your target market, evaluate your rental units by looking at the following features that make your property unique:

- **Location:** What are some of the benefits of your property's location? Is the property located near places of employment, medical services, shopping, schools, and other important neighborhood or regional facilities? Paying attention to your property's location will likely help you identify a target market that includes employees of certain companies; young families who want to be close to good schools; or people who need to live near certain local facilities, such as a regional mall, a grocery-anchored shopping center, or place of worship.
- **Size:** Larger units tend to be most attractive to families and roommates, whereas studio units are more suitable for single renters, independent seniors, and couples.

- **Age/condition:** Only newer properties attract certain renters, whereas other prospects prefer more classical or vintage properties with unique personality and character that can't be found elsewhere. Look for a unique value proposition for each unit type. Many older properties have rental units with more square footage and larger bedrooms with more storage, for example, and those features can be very attractive to some renters. The pandemic created a large target market for oversize rental unit, as all renters who work from home need larger units with work space and lots of storage.
- **Rental rate:** Renters, like most of us, want the very best value that money can buy. They need to find a property that meets their criteria within the price range they can afford.
- **Amenities:** A property that allows pets and has a large yard typically attracts pet owners and/or renters with children. If your property has storage space or a garage, some hobbyists or empty-nesters who are downsizing may be particularly interested. Renters who are physically active will like finding exercise facilities, a pool and spa or tennis courts, or similar amenities on your property or close by.

When you compare the attributes of your property with the needs of all prospective renters in your market, you'll probably discover that certain renters find that your property meets their needs more than others do. The term target market is appropriate to describe the group you're out to attract. Certain phrases and images may be likely to catch the attention of specific groups, such as "located in the top-rated school district."

REMEMBER

You can use this knowledge to target specific audiences, but your rental efforts must never discourage, limit, or exclude any prospective renter from having an equal opportunity to qualify to rent from you.

WARNING

If you don't attract and retain tenants, your competition will likely do so. The fact is that you're competing with other owners and property managers for the best tenants, even if you have only a few rental units. In most rental markets, prospective tenants have several options, and the most responsible tenants will be selective because the rental unit they choose will be their "home sweet home."

Thinking about what your renters stand to gain from your property

After you've established your most likely rental prospects, you need to shift your focus to incorporating the concept of a target market into your marketing strategy. This time is when I usually think of the WIFM (what's in it for me?) concept. WIFM is intended to describe the thought processes of virtually all consumers

(including your potential tenants) in evaluating a purchase decision, such as a rental. (I discovered this important idea at the national faculty training sessions of the Institute of Real Estate Management.) The WIFM concept reminds you that in general, people are most interested in the benefits they receive in any given relationship or business transaction.

When it comes to marketing and advertising your property, the important concept of WIFM can help you visualize the rental decision process through the eyes of your prospective tenants, resulting in your finding stable long-term tenants. Unfortunately, rental property owners and managers are human, and they often fail to critically evaluate the advantages and disadvantages of the product they're selling: their rental housing units. You have a competitive advantage if you thoroughly understand the opportunities and challenges of your property and the specific rental unit that's available. You can also beat the competition if you find ways to address and fix your property's weaknesses or narrow your marketing focus to home in on the prospect who will be attracted to your property.

TIP

Property owners themselves aren't part of their target market, so they may make incorrect assumptions about what prospective tenants value. If you have current tenants, you may want to ask them what they value most about renting in your building or the reasons why they rented your unit over others in the market. Your tenants live in your units, and others like them are your target market, so the information they provide can be invaluable.

Understanding the Importance of Good Advertising

Tenants rarely come looking for you. Your local major employer or hospital or college may have a housing bulletin board (if so, lucky you!), or one of your current tenants may contact you on behalf of a friend who's looking for a rental unit. These scenarios are the exception rather than the rule. Most of your tenants come from what you do to locate qualified rental prospects.

Advertising is how you let people know you have a vacant rental property. If people don't know you have vacant units, they can't rent those units. When advertising is done well, the money you spend on it is extremely worthwhile; when it's done poorly, the advertising you do can be a waste of your precious and limited resources. Advertising is more an art than a science; what works for one particular property may not work for another. The next few sections emphasize the importance of the role of advertising in renting your property and what you can do to get your property rented.

TIP

Review the information from your marketing plan about your property's most marketable features and attributes, and emphasize those features in your advertising.

Eyeing the different approaches

The key to success in any type of advertising is determining how to reach your target audience. In the case of advertising rental property, you want to reach that very small, select group of qualified renters who'll be interested in your property when it's available to rent.

REMEMBER

Although you can advertise your property creatively and effectively in many ways, two of fundamental differences are the precision with which you reach your target audience and the ultimate cost involved. Consider these two different approaches:

- **Rifle approach:** This type of advertising is specific, targeting a narrow group of prospective renters. The best rifle approaches are word-of-mouth referrals and "For Rent" property signage you place on your property. If your property is well located, with great signage visibility, this approach may work quite well. But if you rely solely on these approaches to find tenants, you may end up with vacant properties much longer than you want, particularly if your rental property isn't on a well-traveled street. Your "quiet and private" rental property at the end of a cul-de-sac may be just what many prospective renters are seeking, but that great feature will also be a challenge in trying to attract new tenants.
- **Shotgun approach:** This type of advertising blankets the market, targeting renters and nonrenters, qualified and unqualified alike. Although you can reach a very large audience with online advertising these days, you don't know how many people who are online at the time are looking for a rental unit on the day your ad runs. The same applies to many nontargeted billboards and to radio and television ads.

TIP

If it's well executed, the rifle approach is my preferred option; it can be more productive and less costly than the shotgun alternative. As my dear friend and rental housing industry marketing and training guru Kathy Harmon of MyCoach, LLC says, "If I try to appeal to everyone, I appeal to no one." This excellent advice reinforces the importance of determining your target market for each of your rental properties separately and developing a unique marketing strategy for each property, taking a rifle approach to advertising to reach that specific market.

Many advertising strategies adopt the shotgun approach; very few methods are in the rifle category. Regardless of the method you choose, remember that advertising is primarily a numbers game. If you reach enough prospects, you'll probably

find a few who are looking for a property like yours on any given day. In an ideal world, you pay only to reach that limited number of qualified renters in your area who are looking for a property like yours and who want it the day it's ready to rent. This scenario isn't reality, of course, but it gives you a goal to strive for when you evaluate the ways you can advertise.

TIP

Some forms of online advertising offer a per-lead pricing model as opposed to the standard pricing model, which is based on aspects such as the size of your ad, the number of days your ad is online, and the number of photos. With per-lead pricing, you're charged a dollar value for each lead when an actual prospective renter shows interest in your property. Not everyone who clicks your ad is a viable rental prospect, of course, so you could pay for a lot of "leads" that are really just lookie-loos. But this model might make sense for you to consider. The most efficient pricing model is pricing per actual rental, but it's not commonly offered.

Knowing which approach gives you the most bang for your buck

In the past, creating interest in your property used to be as simple as putting up a sign or placing an ad in the local newspaper. Although ways to attract prospects for your property may still include these tried-and-true techniques, the success and broad reach of the Internet give you many alternatives to consider. The target market for your property may suggest the type of advertising that works best for you.

TIP

One of the best ways to determine your property's most desirable features for your target market is to use the WIFM concept (as discussed earlier in the section "Thinking about what your renters stand to gain from your property") and ask your current renters what they like about where they live. You may also figure out from talking with the qualified rental traffic (all the people who look at your property, not just those who agree to rent) what attracts them about your property. The key is to keep in mind that your property has features that appeal to different prospective renters. Over time, you can determine certain common factors that most prospects desire and then incorporate these selling points into your marketing and advertising efforts.

REMEMBER

One size rarely fits all. When it comes to advertising a rental property, you need to employ a combination of the shotgun and rifle approaches (refer to "Eyeing the different approaches" earlier in this chapter) to be successful. Clearly, both methods have advantages. Referrals and property signs often give you good exposure to local renters, whereas employers, locator services, and online ads let people who are relocating to your area know about your property as well. Check out Table 7-1 for the pros and cons of various advertising options.

TABLE 7-1 Pros and Cons of Advertising Options

Approach	Pros	Cons
Craigslist	Free (except in Boston, Chicago, and New York City) Top source for tenants seeking rentals in some markets	Not available in all areas, especially rural ones Listings must be reposted frequently, which can be time-consuming (or expensive if in a metro area with rental ad charges)
Community bulletin boards	Inexpensive	Narrow market
Direct mailings	Inexpensive	Low response rate (as low as 2–5 percent)
Drive-by radio transmitter	Very effective and inexpensive	Targets only prospects who are at your property
Flyers	Space for details Reasonable cost	Limited distribution
Internet	Ease of use Mixed cost; some venues can be very expensive (think shotgun approach) Facebook Marketplace, which is free, can be a great option	Uncertain effectiveness for smaller properties in rural areas
Local employers	Qualified prospects	Narrow market
Locator services	Pay only for actual rental	Typically priced at half to a full month's rent or higher (if the rental rate is low)
Newspaper	Not a viable option in major metro markets but useful in local newspapers and rural areas	Can be cost-effective using rifle approach at the local level or in rural areas
Property signs	Very effective and inexpensive	Narrow market
Rental publications	Widely used by prospects	Expensive for small properties
Word-of-mouth tenant referral	High credibility Low cost	Narrow market

Getting your property to rent itself

Before you spend money on advertising, take another look at your property with a critical eye, or ask a friend to critique it. You probably know somebody who has a sharp eye for finding little details that aren't quite right. Invite this person to help

you identify and correct those nagging items that detract from your rental unit. Even the best advertising campaign in the world can't overcome a poor physical appearance. Making sure that your property looks good on both the outside and the inside significantly improves your chances of finding the right tenants.

The best advertisement for your rental unit is its *curb appeal* — the impression created when a prospective renter first sees the building from the street. The importance of a good first impression is well documented in business and clearly applies in rental housing too. A property that has well-kept grounds with green grass, trimmed shrubs, beautiful flowers, and fresh paint is much more appealing to your prospects than a property that looks as though it has seen better days.

Curb appeal can be positive or negative. You can deliver positive curb appeal by having litter-free grounds, well-manicured landscaping and lawns (or xeriscape shrubs, if you live in a drought area), well-maintained building surfaces, a clearly identifiable address, and clean windows. Any amenities (such as a swimming pool and parking lots) should also be clean and well maintained.

You can rent properties with negative curb appeal, but attracting tenants to them usually is challenging. You may have fewer qualified prospects to choose among, or you may have to reduce the rent. Because time is money in the rental housing business, the lost revenue caused by poor or negative curb appeal is often much greater than the cost of repairing or replacing deficient items. Besides, a well-maintained, sharp-looking property tends to attract the type of tenant who treats your property with care and respect — and pays a higher rent.

Properties rarely rent themselves, but a sparkling appearance attracts good prospects. Keep in mind that poor curb appeal is the direct result of poor management. You have no excuse for poor curb appeal, and no one benefits from it. You can never regain your lost revenue, and your property value ultimately declines.

Being Aware of Fair-Housing Laws

Whether you're the owner of a single rental unit or of a small to medium-size multiple unit property, fair-housing laws affect your advertising. These laws prohibit advertising that indicates any preference, limitation, or discrimination based on race, color, national origin, religion, sex, familial status, or physical or mental disability. Consequently, discriminatory rental housing advertising is illegal and can result in very severe penalties.

The 1988 federal Fair Housing Amendments Act also states that rental property owners and managers can't

- Target certain groups by advertising in select media only
- Imply a preferred type of tenant with discriminatory language, locations, logos, or models in advertising
- Refuse to show, negotiate for, or rent housing
- Refuse to supply rental information or accept applications
- Make housing unavailable
- Use discriminatory qualification or selection criteria for prospects
- Set different rental rates, terms, conditions, or privileges for the rental of a dwelling based on the applicant's membership in a protected class
- Direct people to certain parts of a community, building, or floor based on their membership in a protected class
- Provide different housing services, facilities, or maintenance based on tenants' membership in a protected class
- Enforce restrictions or different provisions in rental contracts selectively
- Falsely deny that housing is available for viewing or rental
- Persuade owners to rent or deny anyone access to or membership in a facility or service related to the rental of housing
- Post discriminatory notices or statements, or evict a tenant on the basis of membership in a protected class

Complying with fair housing regulations begins with advertising to all qualified prospects, continues throughout the screening and tenant selection process, and remains a key issue during the entire tenancy. If you are or plan to be in the rental housing business, make sure that all your advertising, tenant screening and selection, and management and maintenance policies comply with both the intent and the specific requirements of the law. Also be aware that fair-housing laws are constantly being redefined and expanded. Check state, county, and city laws for any additional protected classes that may have been added as new categories in addition to the federal list. Then ensure that anyone who works for or with you is fully aware of the law too. Ignorance of the current law isn't an acceptable excuse if your policies and procedures are challenged.

TIP

Whenever you have space available in your rental advertising, be sure to include the Equal Housing Opportunity logo. This logo may not be available for certain ads, such as newspaper classified ads, but try to include it in all other advertising, such as flyers, brochures, community bulletin boards, direct mailings, and all online ads. You can download the logo for free at the website of the U.S. Department of Housing and Urban Development (HUD). Go to `www.hud.gov`, type "Equal Housing Opportunity logo" in the search bar in the top-right corner, navigate to the logo home page, and then download to your heart's content.

TIP

If you have any questions about discriminatory housing practices, contact HUD's Office of Fair Housing and Equal Opportunity, which oversees the creation and enforcement of federal fair-housing laws. Find it online at `www.hud.gov/offices/fheo`, or call the Housing Discrimination Hotline at 800-669-9777. (If you're hearing impaired, call the TTY line at 800-927-9275.)

All rental property owners must comply with federal, state, and local fair-housing laws. Know the applicable laws for your area, and make sure that you don't violate them, even inadvertently. Check with local landlord–tenant legal experts, your local apartment association, or the National Apartment Association (NAA) for more information about fair-housing laws in your area. To contact the NAA, write to 4300 Wilson Blvd., Suite 800, Alexandria, VA 22203, or call 703-518-6141. You can also visit the NAA's website at `www.naahq.org` to find the affiliated state or local association in your area. To access a list of NAA affiliates, go to `www.wiley.com/go/propertymanagementkitfd4e`.

IN THIS CHAPTER

- Choosing where and how to advertise your rental properties
- Looking at online advertising options
- Evaluating social media options
- Considering other ways to spread the word

Chapter 8

FOR RENT: Effectively Using Advertising to Generate Interest

One of your most important decisions as a residential rental property owner will be how you generate interest in your rental property with tried-and-true conventional advertising, plus the plethora of options in today's digital marketing world.

When the first edition of this book was published in 2001, a considerable portion of a chapter was spent on all the tricks and secrets of writing a two- or three-line newspaper classified ad that would catch the reader's attention. How could you get your desired prospective tenant to decide your ad was the one to answer when it looked just like so many others?

Yet just ten years ago, newspaper ads were virtually gone except in suburban and rural areas, and Craigslist.com was one of the most popular ways to reach prospective tenants in urban areas. Again, the focus and goal were essentially the same: How do you get your ad noticed, with prospects having to scroll through a sea of similar ads in page after page of nearly identical listings?

Although our technology options have changed significantly in the past decade, with many competing online venues claiming to be superior ways to advertise and

attract the best prospective tenants, the challenge is exactly the same as it has been since the beginning of advertising: how to stand out in a very competitive environment with new products and websites. And there is always this caveat: What is hot and catchy today can quickly become the next MySpace.

Analyzing Your Advertising Options

When you decide to advertise your rental property, you need to think like a tenant. Most rental property owners were renters at some point. You may have experience as a prospective renter looking for the right place to live. Perhaps you found the search frustrating, or maybe you developed a successful system for finding quality rental properties at a fair price. Your experience as a renter can be helpful when you plan and place your ads. Just remember that your experience in looking for a rental unit may be different from your prospects' experience in today's market.

Many owners may remember that when they began looking for their own rental years ago, they either drove around the area or sought out advertising specific to a particular location. Although most prospective renters still use these ways to research their rental area of interest, many tenants have realized the advantages of online rental shopping. These renters ultimately go out to see each property that meets their needs, but not before narrowing their search to a few properties via the Internet.

REMEMBER

Most renters don't want to move to an unfamiliar area. Although moving is enough of a disruption in your daily routine, adapting to a different neighborhood is even worse. Thus, most renters relocate within the same geographic area unless they're facing a major change in employment or school, or another significant factor that requires a distant relocation.

The following sections outline the ways you can reach your prospective tenants, from word of mouth to the Internet. Use more than one form of advertising, and find your new tenants faster.

Talking the talk: Word-of-mouth referrals

Often, the best source of new tenants is a referral from one of your property's neighbors, one of your other tenants, or possibly even the tenant who just vacated your unit. Many times, referrals also come from co-workers or friends. Word of mouth can be your most effective and least expensive method of finding new tenants, especially if people like your property or where it's located. They'll refer others only if they're happy. You need to earn their referral, but don't forget to ask for it.

REMEMBER

In the long run, your best source of new tenant leads is other satisfied tenants. Keep your current tenants content, and treat your departing tenants properly, with timely accounting and the prompt return of any remaining security deposit balance. Tenants talk, and bad news travels faster than good news.

Many of your tenants or other people who own or rent in the area may have a family member or friend who's looking to relocate. Creating a sense of community in which your tenants have friends in the immediate area can lead to longer tenancies and lower tenant turnover. This combination translates directly into improved cash flow for you.

REMEMBER

If your tenants or neighbors give you referrals, consider rewarding them or thanking them in various ways. Regardless of the kind of reward you give referring tenants, the key is to make them feel appreciated for the referral. Here are some ways to reward your referring tenants:

- Referral fee: Typically, referral fees are $100 to $500 in cash or rent credit, paid only after the new tenant has paid both the full security deposit and the first month's rent and then taken occupancy. In a soft rental market, in which the supply of vacant apartments exceeds the demand, some owners and property managers may even offer referral fees of up to 50 percent of the first month's rent. The market conditions in your area dictate the appropriate level of referral fees for your property. You can also offer a higher amount for multiple referrals.

  Some owners give half the referral fee up front and the other half after the new tenant has lived in the unit for a specified number of months to ensure that the tenant plans to stay a while. In my experience, however, the referral fee is more effective if you pay the full amount immediately when the new tenant takes occupancy. Although on some occasions, the referred tenant doesn't stay for more than a month, this situation is usually nothing that the referring tenant can control, so they shouldn't be penalized.

  WARNING

  As with all policies, be sure to offer your referral fees consistently and equally to all tenants to avoid any fair-housing-law concerns.

- Improvements or upgrades to the tenant's rental unit: When cash or a rent credit is inappropriate (as in states where a real estate license is required for referrals), you can offer enhancements to the rental unit, such as installing a new ceiling fan, hanging new wallpaper, cleaning the carpet, installing new hard-surface flooring, or repainting the unit. Certain types of improvements may have a long life and stay with the unit after the current tenant leaves, making the unit more marketable and justifying a higher rental rate for a future tenant.

The psychological impact of giving an immediate reward for a referral can be very motivating. You can also adjust the amount of the referral fee for certain rental units that may be more difficult to rent or for certain times of the year when you have more trouble renting vacancies. If you normally offer a $100 referral fee, for example, you may want to consider offering a $200 fee for any referral given between Thanksgiving and the middle of January, because this time of year is often very slow for rental traffic. (No one likes to move during the holidays or in inclement weather!)

If you're unable to give monetary rewards for referrals, don't forget the power of a thank-you call or a handwritten note. Getting a sincere "Thanks" for a referral can be every bit as powerful as a rent concession.

WARNING

Have any rental applicant referred by word of mouth fill out a tenant application and go through the same thorough background check as any other applicant. Any deviation from your normal application and tenant selection process can support later allegations that you favor certain incoming tenants. Always screen every referral carefully, but be particularly careful if the referring tenant has a poor payment history or created other problems. Just as a referral from an excellent tenant often leads to another excellent tenant, a referral from a problem tenant often leads to another.

Showcasing your site: Property signs

A property sign is the first step in most rental property advertising programs because it's one of the most economical ways to promote your vacancies. The use of a simple "For Rent" sign can be very effective and generate great results for minimal cost. In certain areas with limited availability of rental units, a sign on the property is all you need to generate multiple qualified applicants.

In the following sections, I explain how to determine whether using property signs is an appropriate tactic in your area and, if so, how to make signs work for you.

Deciding if you need a sign

An advantage of the property sign is that callers already know the area and have seen your building's exterior. Consequently, the attractiveness and aesthetic qualities or curb appeal of a property are essential. The property must look good from the street; otherwise, else rental prospects won't even bother to stop and see the interior.

A disadvantage of signs is that they announce to the world that you have a vacant rental unit. In some areas, this announcement can lead to vandalism or the

unwanted use of your property for parties or criminal activity. For this reason, many rental property owners post rental signs while the unit is still occupied by the outgoing tenant and remove the signs when the unit is empty. Depending on your tenant and their level of cooperation, you may also want to indicate on the sign that the current tenant shouldn't be disturbed.

Making your signage stand out from the competition

If you choose to put up a property sign, do so as soon as you find out that you have an upcoming vacancy unless your property's curb appeal is poor or signs aren't allowed. Be sure to use signs that are in perfect condition, with large, crisp lettering that's easy to read. The condition of the sign reflects the image of your property — whether that image is good or bad. A well-maintained sign provides a good first impression. A faded, worn out, or tacky sign is worse than no sign.

Consider the following when developing and placing your signage:

- **Visibility:** Make sure that your signage is clearly visible from the street and that the lettering is in a large, readable font. Ideally, place a two-sided sign perpendicular to the street so that people can see it easily from passing vehicles. Also pay attention to weather conditions. Make sure that your sign can withstand seasonal winds and driving rain, and won't get buried in snow.

  TIP

  Drive by your property from both directions at the usual speed of traffic to make sure that your sign is easy to see and understand. The main objective of property signs is to get the driver's attention with the words "For Rent" or a similar basic message. You want the driver to pull over and stop to write down the details and phone number.

- Content: Don't get carried away or put so much info on the sign that it can't be read easily from the street. Include the phone number and date of availability very clearly. You can also add the number of bedrooms and bathrooms, along with any special features. Clearly indicate your rental rate on the sign, because you need to make sure that prospective tenants know what to expect. Including the rental rate can even prescreen tenants who aren't financially qualified.

  On the other hand, when the property's exterior doesn't do justice to the actual rental unit, you're better off not including the rental rate on your property sign. Because you're usually not there to show the unit at the time the prospect sees the sign, they may think that the rent is too high or too low and immediately decide not to call. The value of some rental units can't be appreciated until a prospect has seen the unit's interior.

- Location: Place your signage in a prominent location. Property signs don't work as well if your unit isn't on a busy street or isn't noticeable from a main road. Property signs on dead-end streets or cul-de-sacs are worthwhile, but don't expect the kind of response you'd get if your sign were on a major thoroughfare or arterial roadway.

TIP

If your property is on a side street that's relatively close to a major road, you may be able place a sign on a nearby high-visibility property if you get the owner's cooperation (unless such signage placement is prohibited) by local law. Approach the owner about placing a rental sign for your property on their land, either on a temporary basis when you have vacancies or on a more formal ongoing basis (with a contract drafted by an attorney, outlining rights, terms, and a financial incentive for the owner). Typically, you can expect to pay a landowner $50 to $250 per month to put your sign on their property, depending on the sign's size and location.

REMEMBER

Any off-site rental sign should clearly indicate the location of your property. Make sure that the property where you place your sign is comparable to your property in terms of curb appeal. A property that's vastly superior to yours can deter potential renters. Naturally, a property that has poor curb appeal discourages prospects from inquiring about your property, even if your property is in much better condition. As with all signs, first impressions are very important and leave a lasting image in the minds of prospective renters.

Broadening your horizons: The Internet

The Internet has become much more than just a useful tool to augment more conventional advertising methods (such as newspaper ads and flyers). But with so many options, how can you reach your target market of prospective renters effectively and efficiently? The following sections address this challenge, helping you incorporate the Internet into your own customized marketing strategy for attracting rental prospects.

Craigslist

Craigslist has become the favorite online advertising option for all segments of the rental housing industry, from major real estate investment trusts with multiple large rental properties to novice rental property owners with a single-family home or condo to fill. Craigslist rental housing ads are effective because they're free (except in major metropolitan areas such as Boston, Chicago, and New York City), and your target market of prospective tenants is very likely to be aware of them. But that doesn't mean you'll have guaranteed success without finding out the best way to take advantage of the benefits and know the limitations of Craigslist.

Craigslist is offered in all states and is organized with separate lists for most major cities within each state. Many of the largest metropolitan areas or population centers are broken into geographic sublists for specific areas. Find the area that serves your rental property, and click the Housing heading to find dozens (if not hundreds) of listings of available rental properties posted in chronological order.

To post your listing, simply set up an account, click the Create a Posting link, chose the geographic subarea where your rental property is located, click Housing Offered, select the housing category, and then continue to a blank posting description page. Start with a catchy posting title, but also be sure to fill in all the pertinent information, such as the neighborhood, zip code, address, and cross street. Include a good narrative description of the rental property and/or rental unit, including when it will be available, any open-house dates, and whether pets are allowed. In addition to completing all the fields, don't forget to click the appropriate check boxes. Disclose any broker fees and the amount of the application fee.

You also need to master the fine art of catching the eye of your prospect in a few words. I recommend clearly indicating the neighborhood or part of town your property is located in up front, because most renters tend to have a specific area in mind. It can also be a good idea to indicate any limitations of the property, such as a no-pets policy. You want to generate interest in your unit, but you don't need to spend time with prospects whose needs you aren't able to satisfy.

You can add up to 24 photos if you verify the rental property location on a map first. I strongly encourage you to add photos, which are among the best ways to make your Craigslist ad "pop" and be noticed.

TIP

Many prospects won't waste time contacting you unless your ad includes photos of your property (not generic images of a similar property). Your posting should include wide-angle photos of your property's exterior and photos of some of the main rooms in the rental unit. Having separate pictures of each generic bedroom in a large, four-bedroom house may be too much, but including photos of the kitchen, master bedroom, and bathroom is a good start. You also want to include the dimensions of the major rooms, because many prospects need to know whether their furniture will fit. Another great idea is to include short narrative descriptions with positive comments within the listing, or include the room dimensions right on the photos, if you have that capability.

TIP

The first time you use Craigslist to post your upcoming vacancy, you may still have renters in place and may not be able to get the photos you want for your online posting. But be sure to grab your camera and take the first opportunity to photograph every portion of the property. You can download or store these photos for use later in your ads.

You can also use some detailed photos if prospects are interested in some specific aspect of your home. Maybe they're looking for a fenced yard, for example. Multiple photos of every angle of the yard won't be of interest to all prospects, but having the photos available when the need arises can be helpful.

For better or worse, your new Craigslist ad will be online for only a week before you need to repost it, even if you don't have any changes to make. If you don't get much action from a posted ad, change it a bit when you repost it. Revisit your plan, ask who your target market is, and see whether you're touching on your target market's needs in your ad.

WARNING

Listings on Craigslist can get buried or lost very quickly because of the site's popularity. Also, listings expire automatically, usually within seven days. While obeying all the rules of Craigslist, you need to make sure that you repost your listing frequently so that you stay near the top of the listings, because many prospects have limited patience for scrolling page after page with 100 listings per page.

Online advertising

Opportunities to promote your rental vacancy online, both locally and nationally, have exploded over the past several years. Following are some of the most popular and successful online advertising sites. When you advertise on one site, you may be able to also get your listing on another site with common ownership, so I also include the names of the parent companies:

- **Apartment Finder** (CoStar Group): `www.apartmentfinder.com`
- **Apartment Guide** (RentPath Holdings): `www.apartmentguide.com`
- **Apartment Search** (CORT): `www.apartmentsearch.com`
- **Apartments.com** (CoStar Group): `www.apartments.com` (both English and Spanish language sites)
- **Doorsteps** (Move, Inc.): `www.doorsteps.com`
- **For Rent** (CoStar Group): `www.forrent.com` (both English and Spanish language sites)
- **Hot Pads** (Zillow Group): `https://hotpads.com`
- **Realtor.com** (Move, Inc.): `www.realtor.com`
- **Rent.com** (RentPath Holdings): `www.rent.com`
- **Rentals.com** (RentPath Holdings): `www.rentals.com`
- **Trulia** (Zillow Group): `www.trulia.com`
- **Zillow** (Zillow Group): `www.zillow.com`

The online rental info you can offer is unlimited, but make sure to include the basic information:

- **General location of the unit:** Prospects want to know whether your property is near the places they frequent or whether it's in a reasonably safe part of town. (Make no claim of safety or security in your ads; prospective tenants can make that determination from the address, from their visits to the property, or from a check with local law enforcement, which is always the best source.) In many cities, the name of your neighborhood makes an immediate impression on your prospect, which can be good or bad for you, depending on the reputation of the particular neighborhood. So if the name of the area may give a negative impression, leave it out.
- **Number of bedrooms and bathrooms:** This number is usually a major determining factor for most renters. Always let prospects know what to expect from your property. Depending on your target market, a bedroom may actually be used as an office or a den. In some areas, housing is in such short supply that you'll find prospective rental applicants seeking to house more people than are reasonable for the size and number of bedrooms in your rental unit. To comply with fair-housing laws, tell the prospective renter that you comply with the U.S. Department of Housing and Urban Development guidelines that allow two people per bedroom, plus one for the unit, as discussed in Chapter 11.
- **Major features or amenities:** Prospective renters want to know what makes your rental property better or different from the others in the area. Always mention what makes your property unique and more desirable than other rental properties, which may sound the same to a prospective renter who's looking at dozens or even hundreds of rental property ads.
- **Monthly rent:** Listing your monthly rent in your ad lets prospective renters know your requirements.
- **Telephone number and email address where you can be reached:** If prospective tenants don't know how to reach you, you won't receive any inquiries about your unit. With today's technology, prospective renters have become very spoiled; they expect immediate responses and answers to their inquiries. You need to use all the features of your smartphone to stand out from your competitors; being easy to reach and quick to respond will give you an advantage.
- **Who pays for the utilities:** This info can be a key factor for renters on tight budgets.

- **Whether the unit is furnished:** Some renters may not want the hassle of providing their own furniture; others may not want to use a recliner or dresser that's been around the block a few times.
- **Address of the property:** Include the address unless the rental unit doesn't have excellent curb appeal and you've exhausted all reasonable efforts to upgrade your property's first impression.

TIP

With a smartphone or digital camera, you can take photos of your property to post online. If you have a wide-angle lens on your phone or camera, you can even put interior photos online, which is helpful if the property is currently occupied and you can't or don't want to bother the current tenant by showing the place. Be critical of the quality of your photos. A shot of a dark, empty corner of a room isn't enticing, and if that's the best you can do, hire a professional or simply don't post photos. Don't get carried away by using too many similar photos, as they can slow access (not everyone has 5G and an unlimited data plan) and frustrate your prospects. You can also provide floor plans, detailed directions, and links to online maps.

If you're tech-savvy or know someone who is, you can provide a narrative soundtrack that augments your online info; include some music. Keep in mind, though, that music can be annoying to many website viewers, and you don't want to violate copyright laws. The last thing you want to do is run off potential tenants with your favorite Barry Manilow song, so choose something more generic or include a muting option.

Property website

Technology has progressed so quickly that now, even the owners of one single-family home or condo rental property can develop and publish their own website featuring their rental unit. These sites can be just a basic listing of the property address, the rent, and main features, but they're much more persuasive if they include some exterior and interior photos, preferably taken with a wide-angle lens, and even floor plans. The more information you can provide, the better, but be aware that as with any advertising, too much clutter or superfluous information can be a distraction.

TIP

Most major rental property owners and managers have websites for their properties, and it's useful to review several of them for ideas. Also check the online listings of major rental advertising publications. They start with the most important information near the top and always include contact information, such as a phone number or email address.

TIP

You may prefer to have someone who's a technical whiz set up your website, but with a little practice, most people can create a basic website on their own. I recommend using WordPress. This site previously was used by bloggers, but now it's the most popular software for creating websites. You can find it at `https://wordpress.org`.

After you've created your website, find a host service for it. I recommend using WordPress's web-hosting service, which offers a basic free package, but you'll need the upgrades, which include a domain name, mapping, online hosting, custom design tools, and a feature that allows you to upload and play videos on your WordPress website. WordPress has an intuitive interface that guides you through the steps, or look for a copy of the latest edition of *WordPress For Dummies*, by Lisa Sabin-Wilson (John Wiley & Sons, Inc.), for even more information.

Social media outlets

Social media is a game-changer and is here to stay, but should you incorporate it into your rental management marketing plan? The opportunities for larger rental property owners are apparent, and managers are employing strategies to tap the power of social media, but its effectiveness and efficiency for owners of small to medium-size rental properties are unclear.

There are many stories about landlords and property managers who found tenants by using social media. They have Facebook, Instagram, and TikTok pages, YouTube videos, and LinkedIn sites for their property management company, and they use Twitter to tweet several times per day, using catchy lingo to entice prospects. But using social media can be quite time-consuming, and it's questionable whether the effort is worthwhile for the average rental property owner who has just a few properties.

You can determine how much of your scarce resources of time and money you should invest in social media marketing by how many qualified prospects you attract. It may make you feel good to connect with a lot of wonderful people and tell them about your property. But at the end of the day, you need to focus only on those methods that are the most cost- and time-effective, filling your vacant units with quality long-term tenants.

Here are some points to consider about a few of the most popular social media sites so you can decide whether to include them in your marketing strategy:

- **Facebook:** This social networking site has become a phenomenon like nothing before it. It's international in its reach and has nearly 3 billion users, many of whom spend time each day communicating on the site via a mobile device. Facebook users share virtually all aspects of their work and personal

lives with friends and strangers, and occasionally talk about their living arrangements. Using Facebook is the ultimate shotgun approach (see Chapter 7). You have no idea whether you're reaching anyone who may be looking for a new home.

Facebook has a lot of clutter, so even if you happen to see someone looking for a new place to call home, the odds of reaching that person aren't high, even if you run an ad.

- **Instagram:** This photo- and video-sharing social networking site has become very popular with younger audiences, with more than 1 billion active users each month. The demographic breakdown of Instagram users is much different from that of Facebook; users in the 18-to-29 age range are very active on Instagram. If you have a rental property near a college or university, this platform might be worth checking out.
- **TikTok:** This fast-growing video-sharing social networking service has only recently has been tapped for use by businesses. The site allows rental property owners to post user-generated content at no cost.
- **YouTube:** This video-hosting service is also the second-largest search engine in the world after Google, which owns it. YouTube has evolved tremendously over the past several years, and scores of companies use it to promote their products. As with much of the content on the Internet, the key for rental property owners and managers is directing prospective tenants to their videos.

TIP

Used properly, YouTube can be a great resource for creative and talented rental property owners. You can provide links to your YouTube videos in all your advertising options. If you take videos the way I do, however (my family has complained for years about my rapid, erratic panning or the dreaded ten minutes of video of the ground or the inside of the camera bag), you should seek the assistance of a qualified amateur or a professional. In your household, that may be anyone under 18.

- **Twitter:** This popular online social networking service allows users to send and read short, text-based messages of up to 280 characters. Proficient users have developed their own lingo and abbreviations to communicate very effectively within the platform's limitations.

TIP

At this time, Twitter is useful primarily for communicating rental housing industry information or communicating with people or companies. Currently, Twitter doesn't seem to be effective for advertising vacant rental units, but some users have sought roommates or put the word out that they're looking for a new place to live. Twitter isn't likely to be a cornerstone of your marketing program, but it can be a way to stay connected with your peers in the industry.

- **LinkedIn:** This site is the world's largest professional network, with more than 750 million members. Like Twitter, LinkedIn may not have much to offer the owner of one or a few rental properties. But it can be a way for owners of rental management companies to promote their services and properties and to connect with potential on-site and corporate-office employees, as it has established a solid reputation among people who are seeking new work opportunities.

Reading all about it: Newspapers

For many years, hard-copy newspaper classified ads were the most common medium for advertising rental properties. In limited parts of the country, newspapers are still a viable method of reaching prospective renters, because all major metropolitan newspapers have online editions, and many still take ads for rental properties. You need to go online yourself to see how many ads you can find for rental properties in area newspapers. In my city, which is the eighth-largest in the country, I recently conducted an online search for rental property listings in the largest-circulation newspaper in the region. Only five rental properties were advertised. Clearly, your ad will stand out if you advertise in this newspaper, but with so few listings, it's clear that renters aren't using it.

In some suburban and rural areas, however, the local newspaper can still be an effective tool for marketing your vacancy.

REMEMBER

Newspaper ads can be very effective if you follow these fundamental advertising rules:

- Attract the reader's attention.
- Keep the reader's interest.
- Generate a desire to find out more about your property.
- Persuade the reader to contact you for more information.

When using newspaper advertising, consider where to advertise, the size of your ad, what to include in the ad, and the schedule on which your ad should run. I cover each of these issues in the following sections.

Which newspaper should you advertise in?

In most metropolitan areas, you have at least one major regional newspaper and one or more neighborhood newspapers. The regional newspaper will certainly have an online version with rental ads, but it may not be used by most rental property owners in your area.

I suggest that you start with local or neighborhood newspapers, as they are often more reasonably priced and can reach the renters who are already in the area. Some local or neighborhood newspapers even offer free ads.

Should you advertise in the local weekly throwaway or the regional major daily? Fortunately, in many areas of the country, the major regional newspaper isn't an option, but that doesn't mean you shouldn't consider the local newspaper to see whether it works for your rental property.

REMEMBER

The key to effective advertising isn't the overall number of calls you receive, but the number of dollars you spend per qualified renter. Effective advertising in most major metropolitan areas typically costs $50 to $100 per qualified prospect. So if your local newspaper ad costs $100, you want to receive inquiries from one to two qualified prospects every time the ad runs. You can expect to receive additional inquiries from unqualified prospects, but you can measure the effectiveness of your ad by tracking the number of unqualified prospects who respond to it.

TIP

Many large newspapers have online editions or relationships with Internet firms that specialize in advertising rental properties.

How big should your newspaper ad be?

Newspapers typically offer two types of rental housing ads: display and classified. Display ads are much more effective and eye-catching; they're also significantly more expensive and cost more than many rental property owners can afford. Usually, only the owners or managers of large rental properties use display ads on a regular basis.

Owners or property management companies with multiple properties in a certain geographic area also use display ads because they're able to combine several of their properties into one large display ad, which makes the ad more cost-effective. Unless you have multiple properties with vacancies in the same general area, use the classified rental housing section of your newspaper.

Do you wonder how to make a less flashy classified ad stand out to prospective tenants? The trick is to develop an ad that's efficient but doesn't place a higher priority on low cost while sacrificing the ability to attract and keep a prospect's attention. Your ad needs to be easy to read. One of the best ways to achieve readability is to use white space, the blank space that makes your ad stand out from others; many ads are so crammed with information that readers instinctively skip them. Some newspapers also sell black space; the principle is the same, but the background is black, and the letters are white.

REMEMBER

Consider yourself lucky if a prospective renter spends more than a few seconds looking at your ad. If you can't attract and keep your prospects' attention for several seconds, they'll move on to the next ad.

When writing your ad, provide as much information as possible while keeping the ad readable. But know that the ad's overall size needs to be kept to a minimum; otherwise, you risk a major shock to your advertising budget.

TIP

Most renters prefer to rent from small-time rental property owners, which is why classified ads can be very effective if you can still find them in your area. Classified ads need to be directed to a specific target market and should stress the particular advantages of the property from the tenant's perspective.

What should you include in your newspaper ad?

Effective newspaper ads (like the ones shown in Figure 8-1) provide the basic facts (see the earlier section on what to include in an Internet ad for more items), as well as a hook, which is a call to action that helps your ad stand out from the rest. The hook can be monetary or an improvement to the property — basically, anything that makes your ad grab the prospect's attention. Offering a prospect the opportunity to select new tile floor covering in the kitchen or entryway or providing a ceiling fan or microwave as a bonus is an excellent hook.

#1 Rated Schools!

Hidden Valley executive home. 4 bedrooms, 3 baths, 2250 sq. ft., 3-car garage pool/spa, fenced yard, lush landscaping, a/c, washer/dryer, f/p, gardener incl, pets welcome. $1,995/mo. Avail. 7/1. 423 Sycamore Lane. 555-1212

Cherry Hills Close to Everything

Lg. 1 & 2 BR townhouse apts, on bus route. Walk to schools, stores, medical center. Tennis, pool, spa, no pets. Owner-paid utilities. Furnished units avail. From $575. Maple Grove Apts. 575 Watson Rd. Mention ad for free credit check. Daily 9-6. Call (800) 555-1212

FIGURE 8-1: Good newspaper ads like these can help you find the right tenant quickly.

Courtesy of Robert S. Griswold

TIP

Even in tight rental markets, providing an incentive for the prospect to answer your ad immediately is smart. You can offer to waive the fee for the credit report if the prospect calls the day the ad runs, for example. The credit report typically costs you less than $40, but this kind of offer makes your ad much more interesting to cost-conscious renters.

Although leaving out some information saves you money in the cost of a classified ad, don't forget that incomplete information will cause qualified prospects to skip your ad or many unqualified prospects to call and ask you every question under the sun.

WARNING

Be careful with abbreviations in newspaper ads. Although abbreviating some words can stretch your advertising dollar without cutting into your message, abbreviations often discourage prospects from reading your ad. If prospects can't understand your ad, it won't generate the phone calls you expect, so you've wasted time and money. I recommend using basic abbreviations only if most rental property advertisers in your area commonly use them.

How often or on which days should your newspaper ad run?

Although very few major metro newspapers have large real estate sections, the ones that do usually are in the Saturday or Sunday editions and have the most rental ads, so running your ad on these days can be quite expensive. Newspapers often have specials that encourage you to run your ad for longer periods, which gives you more exposure.

TO ADDRESS OR NOT TO ADDRESS

Opinions differ on including a rental property's address in a newspaper ad, but I generally recommend including it. This information gives prospects the exact location of your property and helps them independently determine whether it's one they might be interested in renting. The only situations in which you shouldn't indicate the address in the ad are when the curb appeal doesn't meet your high standards or when the unit's exterior appearance is deceptive, giving the impression that the unit is small or undesirable compared with its rent.

You might assume that your prospects are savvy in using the great mapping technology on their smartphones. But if you include directions with your address, make sure that the directions are correct and easy to understand. Ask someone who's not familiar with your property or the area to proofread your ad to make sure that the landmarks, cross streets, and directions make sense. If prospects can't find your property, you can safely assume that they're not going to be interested in renting it. Although a more direct route to your property that goes past the local landfill may exist, have your prospects take the next freeway off- amp and backtrack somewhat to your property to avoid any unpleasant areas of town. This is very important if you know that the mapping function on most smartphones will provide the most direct route, but not the best route to make that very important first impression. The advertising and presentation of your property is marketing, and when marketing is done properly, it makes your job much easier.

WARNING

Be sure to change your ad at least weekly. Prospective tenants often skim ads for several weeks when they're beginning to look for a new rental unit. If they see the same ad for more than a week, they may assume that your unit is undesirable. This advice is also true if you have many properties and run the same ad each week. Potential tenants may incorrectly think that the ad is for the same unit every time.

TIP

Some newspapers offer discounts if you run the same ad on consecutive days, but doing so can be expensive. Instead, run a larger ad on the primary rental housing advertising day, and run a reference ad the rest of the week to lower your overall cost. If the Sunday edition of your local newspaper is the primary day for rental housing ads, for example, place a large display ad on that day. Then, on Monday through Saturday, run a small two-line ad that states something like "Kensington — 2bd/2ba available soon. See last Sunday's real estate section display ad." Also, be careful not to run ads on off days just because those ads are cheaper. The marketplace has a rhythm, and people are used to looking for apartments on certain days. You may get a great rate, but on a day when no one will read the ad.

When your ad first appears, be sure to check the newspaper to confirm that it's listed in the proper classification and is worded exactly the way you wrote it. Newspaper ad reps are very skilled at taking down complicated ads with abbreviations, but mistakes can and do occur. Nothing's worse than not receiving any phone calls because your ad was placed in the wrong section or the phone number was listed incorrectly.

TIP

Checking your ad for accuracy may be relatively simple if you subscribe to the newspaper. If you don't subscribe to it, be sure to have your newspaper ad rep send you a tearsheet — a sample of the page on which your ad ran. If the newspaper makes a mistake in your ad, be sure to notify it at once and ask for a corrected ad to run at no charge.

Some newspapers offer special ads for guaranteed results. If your property doesn't rent after your ad has run for a week, a paper may give you up to an additional week of ads for free. Check with your newspaper sales rep for planned special sections featuring rental housing articles and news features. These special sections are written with renters in mind and can increase your ad visibility to prospective tenants.

TIP

If your rental unit is located near a military installation, be sure to run an ad in a military newspaper, which may be in hard copy or online. The military also has housing-referral offices at many bases, and all branches require transferees to register with the housing-referral office. Contact this office with your information. The same approach applies to university and college papers, which may have both hard-copy and online editions; you want to make sure that your ad is in both editions.

Papering the neighborhood: Flyers

Distributing and posting flyers informs the neighbors that you have a rental unit available, which can be helpful because they may know someone who wants to live close by. You can use flyers to direct people to more information (including maps and additional photographs) on your website. See the earlier section "Broadening your horizons: The Internet" for the scoop on using the technology and some great tips on maximizing your advertising results while minimizing your expenses.

Flyers allow you a lot more space in which to describe your rental unit. You can go into detail, listing many features that aren't cost-effective to list in a newspaper ad.

The cost to reproduce flyers is nominal, running about $5 for 500 black-and-white flyers on white paper stock. For an extra $5, consider printing your flyer on colored paper. If you really want to stand out, you'll need to pay about $25 for 500 full-color flyers. The extra money is well worth it. Although keeping your costs low is always important for rental property owners, you may be losing $40 to $100 each day your property sits vacant — and that's money you'll never get back. If you have a property that looks great on a four-color flyer, spend the extra $20 to generate those important rental leads today!

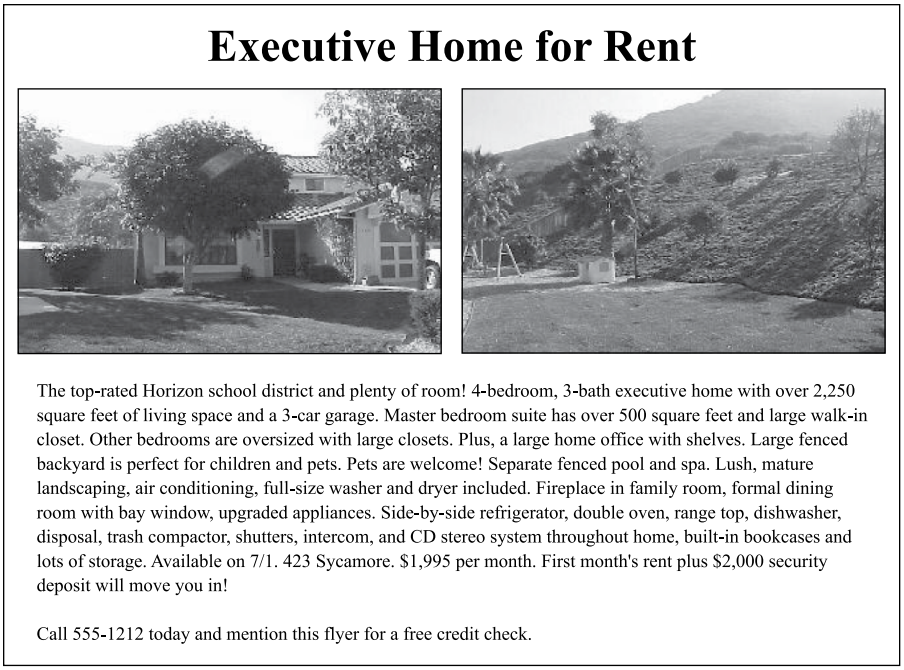
In the following sections, I explain how to create and distribute flyers for maximum positive impact.

Making high-tech flyers

TIP

With the wide availability of word processing programs, making great-looking rental flyers that contain all the pertinent info, as well as a photo and a map, is very easy. Although widely used word processing programs such as Microsoft Word have everything you need to make basic flyers, I highly recommend that you invest in basic desktop publishing software. Several great desktop publishing programs have templates that simplify the process and provide graphics and additional features to make your flyers look sharp.

Another invaluable tool for all rental property owners is a smartphone that has a built-in digital camera. (If you're really into photography, most professionals will tell you a DSLR camera is the way to go for the best quality.) A high-quality full-color photo can easily separate your flyer from the others. Check out Figure 8-2 for an example of a flyer that uses photos effectively to draw attention to a property.



Executive Home for Rent

The top-rated Horizon school district and plenty of room! 4-bedroom, 3-bath executive home with over 2,250 square feet of living space and a 3-car garage. Master bedroom suite has over 500 square feet and large walk-in closet. Other bedrooms are oversized with large closets. Plus, a large home office with shelves. Large fenced backyard is perfect for children and pets. Pets are welcome! Separate fenced pool and spa. Lush, mature landscaping, air conditioning, full-size washer and dryer included. Fireplace in family room, formal dining room with bay window, upgraded appliances. Side-by-side refrigerator, double oven, range top, dishwasher, disposal, trash compactor, shutters, intercom, and CD stereo system throughout home, built-in bookcases and lots of storage. Available on 7/1. 423 Sycamore. $1,995 per month. First month's rent plus $2,000 security deposit will move you in!

Call 555-1212 today and mention this flyer for a free credit check.

FIGURE 8-2: Flyers with good photos are a great way to attract attention to your property.

Courtesy of Robert S. Griswold

TIP

Some people think a handwritten flyer has greater appeal and implies that the owner is a nonprofessional who has a rental unit at a below-market rental rate. This reasoning may be true, but I believe that having a sharp, easy-to-read, typeset flyer with a high-quality full-color photo and detailed map provides superior results. On the back, include a floor plan or more photos and a list of locations of major employers, shops, schools, restaurants, public transportation, and other places that are conveniently located near your rental property, as these are important selling features that prospects may not know about.

Although your goal is to rent your property quickly, the reality is that you'll be marketing your rental unit over a couple of weeks. This guideline is particularly true if you're able to start your marketing during the current tenant's notice period. One of the problems with flyers (just like political placards) is that it's difficult to know which ones are current and which ones are stale. I recommend putting a date on your flyers and keeping them fresh. You should also consider having a series of flyers with a different look, each promoting a different open house. Include the monthly rent on your flyers so that prospects can immediately determine whether your property is in their price range.

Distributing flyers

The key to success when it comes to flyers is distribution. Pass out your flyers personally, or consider hiring a reliable person to distribute them door to door in the area where your rental unit is located. You can also have the flyers distributed to locations that current and prospective renters are likely to visit.

WARNING

Make sure that you never place your flyers in an official U.S. mailbox, because doing so is illegal. If you're considering direct-mail distribution, contact a firm that specializes in direct-mail services.

Although it's often suggested that renters look for a new rental during the last two weeks of the month, I've noticed that in most areas, you can always find renters on the market throughout the entire month. (But be aware that renters who are suddenly looking to make a move-in the middle of the month by the first of next month could be renters who were unable to pay their rent and are facing legal action or eviction.) My experience is that the most reliable and most qualified renters plan their moves, and most start more than 30 days in advance. Begin distributing your flyers as soon as possible. Each week, distribute the latest version with the current info and dates.

You can place flyers in a specific geographic area, which can be very effective in reaching good rental prospects. You can distribute flyers to employers, which often have housing-referral offices or employee bulletin boards, or you can post them in the housing-referral offices at local military installations and universities. Be sure to get permission before posting your flyers; otherwise, they'll disappear, and you'll have created enemies instead of allies who can help you fill your vacancies. Flyers, like all forms of advertising, are only as good as their distribution, so be sure to distribute them in the high-traffic areas where renters are most likely to see them.

Creating chat: Community bulletin boards

Community bulletin boards can be very effective advertising avenues in certain small areas and college towns. Laundromats, pharmacies, hospitals, community centers, and grocery stores often have bulletin boards where you can post information at no cost. You may find that you're limited to a 3- by 5-inch card, but you can tailor your posting to the prospects who'll be most interested in and attracted to your property. Post several identical cards so that interested prospects can simply take a card with them. This tactic also allows you to use the back for more information, including a detailed map and directions to your property.

TIP

If your property has unique features, such as garages or large backyards, you may have some additional promotional opportunities. Carefully evaluate your property, and determine its unique aspects and the specific target market that would be most interested in those elements. A property with a large yard appeals to renters with pets, for example, so a listing on bulletin boards at the pet store, veterinary clinic, and groomer may reach that specific market. Likewise, a property with garages appeals to patrons of an auto-supply or hardware store.

WARNING

A disadvantage of this advertising technique is that you may promote a vacant rental unit to people who may be more interested in having a party or stealing your appliances than renting the unit. One way to minimize this problem is to post on community bulletin boards while the unit is still occupied and clearly state that the property will be available on a future date. You should also consider indicating that the current tenant shouldn't be disturbed.

Going where the jobs are: Local employers

The employers in your area are great sources of rental prospects. Employees of these companies likely have stable jobs and are looking for long-term rentals. Many companies have employee-assistance or housing-referral offices that help their employees find reasonably priced housing. Most rental properties located in metropolitan areas are located near at least one major employer. As a sharp rental property owner, you may have already determined that the employees of certain major firms are part of your target rental market.

Likewise, the major firms in your area have a vested interest in their employees being able to find good-quality, affordable rental housing near their workplace. Progressive employers are always looking for inexpensive ways to assist their employees and improve morale. To capitalize on this desire, you can offer all employees of companies that participate in your corporate referral program an incentive to rent at your property, such as waiving the application fee, allowing the security deposit to be paid over the first 90 days, or even discounting the monthly rent. As with any policy, you must always comply fully with federal, state, and local fair-housing laws, as well as any law that precludes giving discounts or different terms based on employment. Be sure to check with your landlord–tenant legal adviser before implementing any preferential treatment policy for certain employees.

Meandering through other tactics to try

If the other marketing tactics listed in this chapter don't appeal to you, you may find success through property brochures, direct mailings, leasing agencies, or broker referrals. Although most owners of small to medium-size rental properties don't find these services to be advantageous, you may want to consider the following as part of your marketing plan:

- **Property brochure:** A property brochure isn't necessary for most owners of small rental properties, but if you have a property with more than ten units, you should seriously consider developing a basic brochure. The benefit of a brochure is that the prospective tenant can take the information with them and easily share it with a co-applicant. I recommend a simple trifold brochure that can be printed on both sides of 8½- by 11-inch paper. With a basic word processing or desktop publishing program, you can easily create a customized brochure for your property, including a floor plan and an area map that highlights the key places for employment, shopping, schools, and transportation.
- **Direct mailings:** The key to success in direct mailing is having a good flyer or brochure combined with a mailing list that reaches your target market. If you've already developed your flyer or brochure, using this same marketing piece in a direct-mail advertising campaign is a natural next step. As with all advertising, direct mail is effective and cost-efficient only if you can get your specific marketing piece into the hands of prospective renters when they're looking for a place to rent. Use an outside direct-mail firm for the most time- and cost-efficient handling of direct mail. Because postage is expensive, and direct-mail lists with individual names are often outdated, don't attempt to send personalized mailings; instead, send the mailing to "Resident" at a specific address.
- **Leasing agencies:** Leasing agencies (or rental locator firms) often maintain effective working relationships with major corporations and relocation services, and have excellent tenants looking for high-end rentals, usually in major metropolitan areas. Some agencies offer their services to renters at no charge and are compensated by the owner or property manager when the prospect signs a rental contract. Other leasing agencies charge tenants for their services and are compensated only when they find a rental unit that meets the renter's needs.

Tenants relocating to an area typically don't have time to search for a property and want the leasing agency to handle matters for them. They aren't often candidates to purchase a home, because they're staying only for a specific assignment or because they want to rent in the area before making a purchase decision. You often encounter a trade-off with these renters: They're usually well qualified, but they're not as likely to rent long-term. Not all tenants stay for a long period anyway, and if you know that a certain tenant will be with you for only a set period (such as a one-year lease), you can adjust the rental rate higher to reflect this limited-term tenancy with the additional costs you'll incur due to turnover in a year.

- **Broker referrals:** Besides selling real estate, many real estate agents refer renters to property managers. Many of the calls real estate agents receive are from people relocating from other areas who contacted an agent to inquiring about a future home purchase. Although they may have long-range plans to purchase, they often rent while they become familiar with the area.

  Real estate agents don't mind referring renters to an owner or property manager because they know that today's renter may likely be tomorrow's home buyer. Real estate agents are also very interested in referral fees from owners or property managers. Although the referral fee may be a small amount of money compared with the potential commission on a sale, agents are willing to be patient and accept a small reward in the short run, knowing that they can earn the big money down the road.

WARNING

  Check the laws in your state, because some states prohibit the payment of commissions to anyone other than real estate licensees.

  The agent will likely stay in touch with your renter periodically, encouraging the renter to buy rather than continue renting. Aggressive real estate agents have been known to try to earn a referral fee from another landlord when the renter's lease expires.

TIP

  I suggest that you discuss this concern with your real estate agent in advance to avoid any misunderstandings, especially if you're likely to be a future source of more rental referral fees.

LOOKING AT YOUR PROPERTY THROUGH PROSPECTIVE TENANTS' EYES

TRUE STORY

I once had a rental property located near a major university. The property had several vacant two-bedroom/one-bath units. Because I was wary of renting to large numbers of undergraduate students who were interested only in short-term leases for the school year, my marketing plan was to attract university faculty members or graduate students with roommates, who would be a target market for the two-bedroom units on a year-round basis. Although many prospective tenants looked at the units, my actual rentals were very slow, and the two-bedroom vacancies remained unacceptable. Clearly, I was trying to force the rental market and prospective renters to adapt to my perception of their needs.

When it became obvious that my efforts weren't having much success, I carefully reviewed the comments made by prospects. I found that my target prospects preferred to live alone on a long-term lease so that they could have a quiet place to work or study. With this new view of my prospects' needs, I quickly realized that I could market my two-bedroom/one-bath units to my target market with a new approach.

Armed with this knowledge, I revised my marketing efforts by changing my advertising in the college newspaper to read "One bedroom plus den." This move led to increased interest in the property, higher occupancy, and more long-term leases. Just by changing the way I was advertising the units, I was able to reach my original target market of faculty members and graduate students who wanted to live off campus.

Due to the recent pandemic, if you have trouble renting two-bedroom/one-bath units because prospects want a second bathroom, you can market those units to the large number of individual renters who work from home; they want that second bedroom as a dedicated work space but are fine with having one bathroom.

Look at your property from the perspective of the most likely tenants; then promote and accentuate the features of your property that will attract that market. But be careful not to discourage any prospective tenants from renting your property; you must comply with fair-housing laws.

IN THIS CHAPTER

- Making a good first impression
- Using your smartphone as your primary business tool
- Handling rental inquiries with your smartphone
- Getting your prospects to visit your property

Chapter 9

Handling Prospects When They Come A-Calling

In virtually all instances, the landlord–tenant relationship begins with the initial rental inquiry. This inquiry can be a traditional phone call or an electronic communication, such as an email, a text message, or maybe even a tweet. If you master the proper handling and prequalifying of rental prospects and become skilled at selling them on your rental property, you'll find owning and managing rental property to be a profitable and pleasant experience.

Armed with the info in this chapter — and some practice — you can become adept at screening prospects quickly and convincing the qualified ones that you have the rental unit they want. In this chapter, I explain the importance of preparing for communication with prospects, using the phone and electronic media as effective marketing tools, and handling prospects all the way from the first contact to the rental showing.

Understanding Why First Impressions Are Important

Most everyone knows the old adage that you get only one chance to make a first impression. That's sage advice for most businesses, but it's especially true when people are looking to make such an important decision as which rental property will be their next home.

Standing out from the crowd

Your first contact — that important first impression — may not involve a human at all. Most likely it will be in the form of some form of advertising or Internet listing service (ILS), of which there are an endless number these days. An ILS is a digital platform that residential rental property owners and managers can use to post their available units for rent. Most ILSes allow posting photos, rent prices, square footage, amenities, and any other notable features about the property that may make someone want to sign a lease.

But the key to your success in attracting the most-qualified rental prospect for your property will be how well you can stand out in a galaxy of listings that sound great. If you were to go to Google.com and type "Apartments for rent, Any City, USA", you would likely get millions of results. (I actually did this and received 61,500,000 results in 0.66 second!)

The Internet search engines will certainly give prospective renters many choices, but you need to know how you can motivate a serious renter to want to know more about your property. So you need to make sure you are presenting your rental property in the best way possible to attract those clicks. Ask yourself questions like these:

- How does my listing look on first view?
- Is the listing well written?
- Am I providing enough information for prospects to determine whether they want to know more?
- Have I thought about my target renters and addressed their hot button? (If I have two- and three-bedroom apartments available near a school, for example, I will likely talk about qualities valued by families.)

Put yourself in the shoes of likely prospects if they're driving by your residential rental property. What impression will they get? To make a good impression, pay attention to items such as the following:

- The "For Rent" sign should look professional, so that prospects feel that you care about details (and that your rental property likely reflects that fact).
- The exterior of your rental property should look clean, with the grass mowed or walks clear of snow. The buildings and grounds should be well maintained for their age; the balconies and patios should be neat and attractive.

Prospects will also be wondering whether the neighborhood looks safe and welcoming. These factors are critical, and although you can't control the neighborhood, you can have a lot to say when it comes to your rental property making a positive first impression.

REMEMBER

Your ability to secure long-term tenancies from qualified tenants can be influenced by that first impression. Your rental property isn't the only one on the market, and your rental prospects have many options, so keep in mind that you're competing for the best renters with everyone in your area who has a vacant rental property. You need to make a positive impression to stand out from your competition.

Being professional and well organized

Do you ever go to a restaurant and feel that everything is so chaotic that you're never going to get the best service or meal? You probably leave and don't even give the restaurant a chance to surprise you with a good experience. This behavior is human nature, and the same concepts are true in rental housing. Prospective tenants are looking for the peace of mind and reassurance that they're making the right decision about something very important: where to live.

Being organized and professional from your very first contact through the entire rental process instills confidence in your prospective tenants that you have the ability to meet their housing needs. A professional attitude and presentation also let them know that if problems occur with the property, you're likely to address their concerns promptly.

REMEMBER

The way you advertise or promote your property is part of making a first impression in rental housing, but the chief impression-making factor is the first time you have contact on the phone or in person with prospective tenants. One way to make a positive first impression is to be easy to reach and responsive to rental inquiries. In today's high-tech world, people's expectations of easy communication have never been higher. Nothing turns off prospects faster than their inability to get in touch with you. Even the most diligent prospects call, email, or text only once or twice before giving up and moving on to other properties.

TIP

Even if you answer prospects' calls promptly on your cellphone, don't expect to secure a showing for your rental property if you're distracted during the call because you're at the grocery store or your child's soccer game. If you're taking a call outside what one might consider to be business hours, the prospect will usually understand. Simply say, "I'm so glad you called. I happen to be in line at the grocery store and will be tied up for a few minutes. I want to give you my full attention, so can I call you back at the number that appears on my screen [repeat the number] in ten minutes?" Then be sure to keep your promise.

I do think that an old-fashioned, two-way phone conversation is essential unless it's absolutely unrealistic (such as if your rental prospect is in the military and is contacting you from a time zone 12 hours from yours). You may need to send that instant-reply email, text, or tweet and ask to set a mutually convenient time for a phone call. Then, during that call, both parties can provide and receive the important information they need.

You also need to be prepared with all the information necessary to present your property in the best light to your prospects and to answer all their questions. To remember each prospect, take good notes on tracking forms so that you can recall which features the prospect liked most about your property, as well as any concerns they expressed.

TIP

Taking notes on conversations with rental prospects can be challenging if you're driving or engaged in another activity that makes note-taking impossible. Develop a system for recalling those important conversations as soon as possible. Your smartphone offers many options; you can record a quick voice message or even leave yourself an old-fashioned voicemail with vital details. I've found that sending myself an email or a text with the details of the conversation is helpful. Later, I can take this information from my smartphone or those emails or texts (or even notes written on scraps of paper or on my tablet or smartphone) and consolidate them into a single note or file.

People like to feel that they're important and that they're really being listened to. Being able to recall earlier conversations or correspondence can be a powerful tool for ultimately closing the sale and securing a rental contract.

When your prospects are willing to make a commitment and apply for your rental property, you need to have your rental application and rental contract, with all addenda, ready for their review. A disorganized rental property owner doesn't get a second chance, so having a standard application package with everything ready to go immediately will make a positive impression. Being prepared allows you to focus your energies on evaluating each prospect to find the most-qualified applicant who'll be your next long-term tenant.

THE TELEPHONE'S IMPORTANCE IN PROPERTY MANAGEMENT

Some property management books recommend never placing your phone number in your rental ads. Instead, they suggest that you market your property strictly by advertising and by holding open houses, where interested tenants can all view the property at the same time. Open houses allow prospects to prowl the property, getting the information they want while you're preoccupied and have little contact with them. You usually can't meet and greet them individually, learn about their needs, and make them feel important in this venue.

Today there is so much information available about rental properties on the Internet that can be used by the prospect to narrow down the prospects choices to ones that really interest them. But they still have many questions that can be answered only in two-way communication. Sure, they can email, text or tweet you, but those forms of communication have limitations, and you lose the chance to make a personal connection.

In my experience, omitting your phone number from your ads eliminates a large number of qualified prospects who don't have time for (or interest in) racing all over town to attend open houses at properties that may not even meet their needs. Your most-qualified prospects are often people who value their time very highly. I can assure you that in today's high-tech world, your competition is making it much easier for the best rental prospects to narrow their choices to a few properties, and you won't make it to those prospects' short list if you can't answer their questions electronically or at least in a preliminary phone call.

You may think that you can conserve some of your *own* time by not accepting phone calls, but you'll have a different opinion after your first three-hour open house, for which only a couple of unqualified prospects show up. Worse, you may not get any prospects at all. Now, *that* is a counterproductive afternoon!

Spend the necessary time talking with your prospects. Your success before and during a tenancy are greatly enhanced if a phone number is listed and calls are answered by a live human being with a welcoming voice who's armed with all the information the caller is likely to need.

Valuing Phone Conversations

Although the recent trend toward electronic communication (think emails, texts, and tweets) has made keeping in contact with prospective tenants much easier, the phone is still your most important communications tool. The direct, instantaneous, two-way communication of a phone call is extremely valuable. (Just think of all the misunderstandings that can occur due to the limitations of email and text messaging.)

The Internet and email can be useful for your prospects by helping them solidify their interests in your property. But that's where the usefulness of electronic communication ends. Ultimately, your prospects need the type of specific information they can only receive through a phone call because they're likely to have many questions that can't be simply answered via email or text. Likewise, you want to be able to ask them important questions to make sure that they meet your rental criteria. Trust me — you'll benefit from hearing any hesitation or uncertainty in your prospective tenant's voice when you ask them about their recent tenant history, their ability to pay rent, and whether they have any pets.

REMEMBER

Spend the necessary time talking with your prospects. Don't just take the quick and easy route offered by electronic communication. Text and email play a prominent role in communications during a tenancy, but the phone is your primary business tool when dealing with prospective tenants.

I recommend having a phone plan — cellphone, smartphone, or landline — that makes you available as much as possible. Look for features such as caller ID and voicemail that is sent to your cellphone even when you are away from your home or office so you can immediately respond.

I will admit that a voicemail system is vintage technology, and these days, your rental prospects will hang up on a message that lasts longer than about 15 to 30 seconds. So you need to have your own website for your rental property because it can provide much more information than a recorded message. The site should include the following information:

- Accurate availability status, including the date when the rental unit will be available for occupancy.
- Photos and video tours (as professional as possible). If the photo or 3D virtual tour on your website was created years ago, your prospect will know the instant that they drive up to your property that you're being dishonest in your marketing.
- Location, including accurate directions that identify landmarks or major cross streets to make it as easy as possible for visitors to find your property.
- Number of bedrooms and square footage.

- Rental rate and security-deposit requirements.
- Qualifying information, such as minimum income.
- Whether pets other than service animals are accepted.
- Property features and benefits.
- Information about the neighborhood, such as nearby schools and stores.

REMEMBER

A website is only as good as it is up to date. Check it often, and update when necessary.

TRUE STORY

WORKING VACATION

I enjoy traveling and need to stay in touch with my property management office, so I like to have the latest high-tech communication devices. Throughout the more than 40 years that I've been in property management, I've seen a tremendous evolution in technology, from the large brick that was my first cellphone in the late '80s to the latest-generation Android smartphone (with 1 TB memory) and tablet that I now use. Today's devices combine 5G Internet access, email, cellphone, camera, contact database, and calendar all in one — something unheard of in the early days of cellphones.

The ability to be contacted any time, anywhere has its pros and cons, but I feel that this communication technology allows me to travel more than in the past and still be available to manage my rental properties properly and interact with my tenants, vendors, and staff. Now I can travel to most parts of the globe and still receive email messages and phone calls on my trusty smartphone or tablet.

This accessibility can lead to unpleasant surprises on your bill, of course, such as receiving a nonemergency call from a tenant billed at $8 per minute while you're on a world cruise. Although roaming charges are becoming extinct, they are still a few areas of the world where they still exist(like onboard a cruise ship at sea), so be sure to check with your communications provider about roaming charges before traveling to find out the most effective way to communicate from your destination.

An alternative to having your own tablet or smartphone when you travel internationally is making use of the expanding number of locations offering wireless Internet access. With these sites, you can find inexpensive Internet connections virtually anywhere in the world and access web-based email through services such as Google Gmail, Microsoft Hotmail, and Yahoo! Mail.

Advances in technology are extremely important for efficiency in owning and managing your rental property while finding some rest and relaxation. Isn't having technology at work a wonderful thing?

Preparing for Rental Inquiry Phone Calls

Whether or not you were once a Boy Scout or Girl Scout, you're probably familiar with the motto "Be prepared." This motto applies to the management of rental properties in many ways, but one of the most important is being prepared when the phone rings. If you handle rental inquiry calls properly, you make your life much easier and also get the tenants you want. In the following sections, I discuss the importance of preparation and the steps necessary to make sure you're ready when the phone rings.

REMEMBER

Even though prospects can find a lot of information about your property online, the rental inquiry phone call is a critical step that marks the beginning of the rental process. The purpose of this call is to get to the next step: showing the rental unit. Master the art of the rental inquiry phone call, and most of the time, you can set appointments with only qualified rental prospects — and that's the name of the game in property management!

Being prepared with basic phone techniques

Advertising costs you a lot of time and money, so you don't want to waste time looking around for a pen, some paper, and your notes about your property when the phone starts ringing. You also don't want to take phone calls if you're not in a position to devote proper attention to the caller. Rental prospects can tell the difference between a prepared property owner and one who doesn't seem to have a clue. They also form an impression of how you're likely to handle any problems they may encounter with the rental unit. Most sharp renters (and those are the ones you want) are looking for a professional, businesslike owner, so that's what you need to be.

TECHNICAL STUFF

These savvy prospects are likely to have looked not only for ILS listings or ads that you placed but also for ratings and reviews online. Most ratings are posted by folks who are unhappy and not very complimentary about their experience. Check ratings pages often to ensure that your qualified prospects aren't deterred by one or more reviews advising them not to bother. You won't be able to get bad ratings and reviews retracted, but you should respond to them if the service allows you to do so. Most prospects will respect the fact that you took the time to respond, and many will also realize that virtually every residential rental property has negative reviews posted by disgruntled former tenants.

TIP

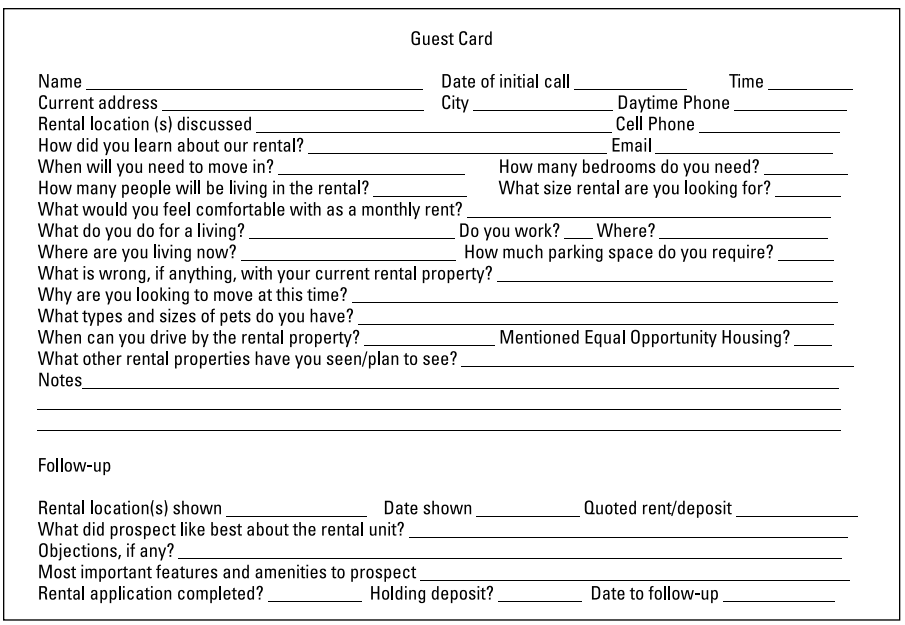
The benefits of having a professional phone technique are one of the main reasons why I recommend having a separate business location for the management of your properties. This location doesn't have to be a separate office in a commercial setting; it can simply be the corner of your bedroom or an office at home. Consider

having a separate phone line — or a separate phone — as well. You can get a distinctive ringtone, of course, but a separate phone line allows you to distinguish quickly between personal phone calls and rental business phone calls. It also helps you treat each kind of call accordingly and is a deductible business expense.

You can find many great resources on the proper use of the phone in business, and the very first advice these resources typically offer is how to answer the phone and what to say. But when it comes to the management and leasing of rental properties, I believe that success with the phone begins with being prepared to use it *before* your first rental inquiry call. In the next few sections, I cover some basic tools to have on hand before your first call comes in.

Guest card

A guest card, like the one shown in Figure 9-1, can assist you in gathering information from your rental prospect, such as their name and phone number; how they heard about your rental unit; and their particular needs in terms of move-in date, size, and other requirements. This information can help you determine whether your property meets the prospect's needs and wants. You can also use the guest card when you show your property to a prospective tenant or follow up on qualified prospects. To access a copy of the guest card, go to `www.wiley.com/go/propertymanagementkitfd4e`.



Guest Card

Name _____ Date of initial call _____ Time _____
Current address _____ City _____ Daytime Phone _____
Rental location (s) discussed _____ Cell Phone _____
How did you learn about our rental? _____ Email _____
When will you need to move in? _____ How many bedrooms do you need? _____
How many people will be living in the rental? _____ What size rental are you looking for? _____
What would you feel comfortable with as a monthly rent? _____
What do you do for a living? _____ Do you work? ___ Where? _____
Where are you living now? _____ How much parking space do you require? _____
What is wrong, if anything, with your current rental property? _____
Why are you looking to move at this time? _____
What types and sizes of pets do you have? _____
When can you drive by the rental property? _____ Mentioned Equal Opportunity Housing? ____
What other rental properties have you seen/plan to see? _____
Notes _____

Follow-up

Rental location(s) shown _____ Date shown _____ Quoted rent/deposit _____
What did prospect like best about the rental unit? _____
Objections, if any? _____
Most important features and amenities to prospect _____
Rental application completed? _____ Holding deposit? _____ Date to follow-up _____

FIGURE 9-1: Guest card.

Courtesy of Robert S. Griswold

TIP

You can also use the guest card to track the rental advertising source. One of the primary reasons to track your rental calls is to see the results generated by your advertising. The number of phone calls isn't the most important factor in determining which advertising medium is the best for your property; the key factor is the number of *qualified* rental prospects it attracts. Getting a few calls from very qualified prospects is much better than getting a lot of of inquiries from unqualified prospects (which is a waste of your valuable time and money). If the prospect says that they heard about your rental property "on the Internet," they're not likely to remember which site. Follow up with the following question, "Would you share with me what about the ad got your attention?" That will tell you what messages are working, if not specifically where they are placed. This information can be invaluable the next time you need to separate your single needle of a rental listing from the millions in the ILS haystack.

TIP

Some latest residential rental housing software includes features that fully integrate guest cards into your property management software. Yardi offers PopCard (`www.yardi.com/products/yardi-popcard`), a lead-tracking and customer relationship management product that tracks leads from your advertising sources, allowing you to evaluate the effectiveness of your advertising. You receive real-time leads, including prospect name and contact information (phone/text/email) and advertising source.

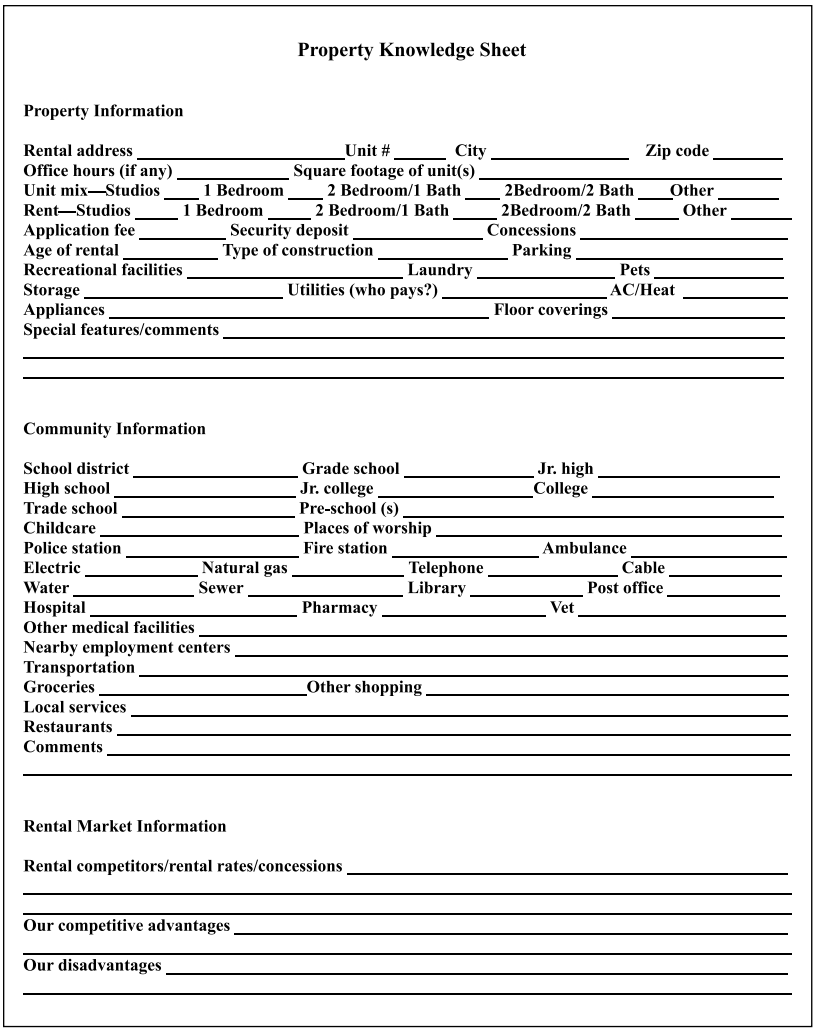
Property knowledge sheet

One of the best ways to answer your rental prospect's questions is to prepare a property knowledge sheet (see Figure 9-2) for each rental property location. This document contains all the basic information about the property, such as the size and type of the unit and the unit number (in a multiunit property). Additionally, it should include the unit's age, type of construction, and other important details. Go to `www.wiley.com/go/propertymanagementkitfd4e` to access a digital version of the property knowledge sheet.

A thorough property knowledge sheet also contains important information about the neighborhood and general area. Just like the chamber of commerce or visitor information bureau, you want to be able to answer questions about your locale. Rental prospects are very interested in knowing about employment centers, transportation, local schools, child care, places of worship, shopping, and medical facilities. You can really make a positive impression on prospects if you can tell them where the nearest dry cleaner, child-care center, or Thai restaurant is located.

REMEMBER

You want to have all the vital info from your property knowledge sheet at your fingertips so that you're ready to answer your prospect's questions, especially if you're competing with large, multifamily rental properties. The more you know about your property and the surrounding area, the more easily you can find some important reasons for your prospect to select your unit over the competition's. Knowing such details can make the difference between success and failure.



Property Knowledge Sheet

Property Information

Rental address _____ Unit # _____ City _____ Zip code _____
Office hours (if any) _____ Square footage of unit(s) _____
Unit mix—Studios ____ 1 Bedroom ____ 2 Bedroom/1 Bath ____ 2Bedroom/2 Bath ____Other _____
Rent—Studios _____ 1 Bedroom _____ 2 Bedroom/1 Bath _____ 2Bedroom/2 Bath _____ Other _____
Application fee _____ Security deposit _____ Concessions _____
Age of rental _____ Type of construction _____ Parking _____
Recreational facilities _____ Laundry _____ Pets _____
Storage _____ Utilities (who pays?) _____ AC/Heat _____
Appliances _____ Floor coverings _____
Special features/comments _____

Community Information

School district _____ Grade school _____ Jr. high _____
High school _____ Jr. college _____ College _____
Trade school _____ Pre-school (s) _____
Childcare _____ Places of worship _____
Police station _____ Fire station _____ Ambulance _____
Electric _____ Natural gas _____ Telephone _____ Cable _____
Water _____ Sewer _____ Library _____ Post office _____
Hospital _____ Pharmacy _____ Vet _____
Other medical facilities _____
Nearby employment centers _____
Transportation _____
Groceries _____ Other shopping _____
Local services _____
Restaurants _____
Comments _____

Rental Market Information

Rental competitors/rental rates/concessions _____
Our competitive advantages _____
Our disadvantages _____

FIGURE 9-2: Property knowledge sheet.

Courtesy of Robert S. Griswold

TIP

The time you spend answering all a prospect's questions can provide you useful information. Be sure to take good notes about the source of your rental traffic and any important comments each prospect makes. Then you can improve your chances of securing leases from the best prospects and incorporate this feedback into your future advertising for that same property.

Some prospective renters may indicate that they had trouble finding the property, for example. This problem is common, and successful rental property owners know that it's a serious challenge. If your prospects can't find the property, they probably won't rent from you.

REMEMBER

You're competing with a lot of other rental property owners, and the best-qualified renters don't need to make extraordinary efforts to find a good-quality rental property. I suggest that you take the directions in your listing or ad and use them to drive to your own rental property to make sure they're accurate. You might even want to see whether your vehicle's navigation system and/or an app on your smartphone can get you to your rental property. Even in a world of amazing Global Positioning System (GPS) accuracy, glitches still occur, which could explain why rental prospects can't find your rental property.

Comparison chart

You may find that you have a vacancy in a *soft* rental market, which has a lot of rental units available. Using a comparison chart can be very helpful in this kind of market, especially if your property has distinct advantages over others nearby. Keeping an updated comparison chart is really a marketing strategy commonly used by the owners and managers of large rental properties, but the concepts are helpful for the owners of small to medium-size properties, too.

A comparison chart can do the following things:

- **Provide useful information on your property's advantages to prospective renters.** Renters may not be aware that they're comparing apples and oranges when looking at various rental properties. Comparison charts are particularly useful to rental property owners who have a competitive advantage that's not readily apparent to uninformed prospects. One potential advantage of your property may be that it has reserved parking, but the competition requires its tenants to scramble for parking spaces on the street. Or maybe your units have much more square footage than the competition. Also, many older properties are more aesthetically pleasing than newer ones, with mature landscaping and beautiful shade trees. These factors that may not be readily apparent to prospective renters, but they can give you the upper hand over the competition.
- **Inform your prospective tenants of the actual costs of your rental housing and the competition's housing.** Your rent may be slightly higher than the rent charged by your competition, but you may pay for the utilities, whereas tenants at your competition's apartments pay for their own utilities. This scenario is becoming more common as many large properties install submetering for utilities.

Figure 9-3 shows a comparison chart highlighting four properties. Prospects can see that although Sunshine Apartments has the lowest rent, when you add in the $75 monthly utilities, its tenants are paying $25 more per month than they'd pay at Maple Grove, and they don't get the reserved parking, on-site maintenance, lush landscaping, or free credit check. In this situation, Maple Grove Apartments is obvious a better deal for tenants, even though the monthly rent is higher. Madison Avenue Apartments and Camelot Townhomes both level out at $700 per month when utilities are taken into consideration. But Madison Avenue Apartments has better landscaping, and Camelot Townhomes has reserved parking. In this situation, tenants would need to decide which of these perks is more important. The key point: By providing an honest comparison chart, you save your prospective tenants legwork and highlight the advantages of your property over others.

For a blank template you can use for making your own comparisons, go to `www.wiley.com/go/propertymanagementkitfd4e`.

Comparison Chart

Property	Rent	Owner Paid Water and Heating	Tenant Paid Water and Heating (with estimated costs)	Reserved Parking	Onsite Maintenance	Lush Landscaping	Free Credit Check
Sunshine Apartments	$600	No	Yes ($75/month)	No	No	No	No
Madison Avenue Apartments	$625	No	Yes ($75/month)	No	No	Yes	No
Maple Grove Apartments	$650	Yes	No	Yes	Yes	Yes	Yes
Camelot Townhomes	$700	Yes	No	Yes	No	No	No

Courtesy of Robert S. Griswold

FIGURE 9-3: Use a comparison chart to highlight your property's competitive advantages.

Answering the phone

As your key marketing tool, when your rental phone line rings, you need to stop what you're doing. Take a deep breath and even close your eyes briefly so you can focus on the call. Be sure to answer the phone no later than the third ring; rental prospects generally have a list of calls to make, so they're rarely patient. If you don't answer in the first few rings, they'll begin dialing the next phone number on their list and probably won't take the time to call you again.

REMEMBER

Because positive first impressions are always important, remember that the goal of your initial contact is to project a friendly, helpful, and professional image. These pointers can help:

- **Have a smile on your face, and speak clearly.** This phone technique really does make a difference. Your positive attitude and enthusiasm can make an important first impression. Even if you're not in the best of spirits at the moment the phone rings, don't sound rushed or hurried. You don't want your prospects to feel that they're imposing on you.

  If you sound disorganized and hesitant on the phone, the prospects will likely feel that you're incompetent — not the type of rental property owner whom they can trust and count on if they have a problem or need a repair. But if you come across in your initial contact as polite, knowledgeable, organized, and confident, they'll respect your skills as a rental management professional. Prospects will see that you treat the rental of your property as a business, not a casual hobby.

- **Control your atmosphere to maintain a professional image.** If you run your rental management business from your home, and a prospect hears children screaming in the background or other distracting noises, you'll be making an unprofessional impression. Controlling your environment can be especially challenging with the advent of cellphones, because you may not be in a location where it's safe to take phone calls (while driving, for example). In these situations, let the call go to voicemail, and call the prospect back at your earliest convenience.

  Planning is critical. If you typically work from home, set up a quiet place to take calls. If you don't have a quiet place, step into the bedroom and shut the door, or (in good weather) go out on the balcony or patio.

TIP

You may find that a rental inquiry call comes when you're right in the middle of another situation that can't wait. Or you may think that if you're not prepared, it may be better to let your voicemail system take a message. I suggest that you still answer the call right away and give your caller the choice to be placed on a short hold or tell them that you can call them right back if they prefer. The majority of prospects aren't willing to leave a message, and you'll lose an opportunity to speak with them as a result. Asking the caller to call back in a few minutes is a risky strategy and one that I don't recommend because the odds of them calling back are remote. Most calls to owners of small rental properties end in leaving a phone message, so you can really stand out by answering your calls.

TIP

If you're fortunate enough to have an exciting and chaotic home life, you need to make sure that you can distinguish between rental inquiry calls and general household calls. For a nominal charge, many phone service providers offer a call waiting service that gives you two phone lines for one phone number. You can also have two separate lines or a service with distinctive ringtones so you can

distinguish your personal calls from your rental business calls. If other members of your household pick up the phone during your conversation, you can easily get distracted, so tell your family members how to distinguish between regular calls and business calls.

Providing and obtaining the basic info

Rental inquiry calls are different from most of the calls you normally make in business. I often find that both parties are trying to eliminate the other as a prospect and to get as much information as possible without giving out any information of their own. But this approach isn't ideal, because you're trying to make a phone presentation of your property. Instead, you need to employ a give-and-take approach, sharing the basic information that prospects need while making an initial assessment of their qualifications.

The start of many rental inquiry phone calls follows a standard pattern. Being aware of this pattern can help you make a professional and positive impression in the first few minutes. Here's how to handle the start of a basic rental inquiry call:

1. **Let the caller inquire about your rental unit and ask whether it's still available.**

   The caller also typically asks about the unit's size and the rental rate. Always answer those questions directly.

2. **Greet the caller by name to develop rapport.**

   People generally like to be called by their names. If the caller hasn't already volunteered this information, you may want to mention your first name again and ask for their name. If they give you their full name, be sure to ask permission for you to call them by their first name. Sometimes, a prospect provides only their last name. In this case, show respect by using an appropriate title when you call them by their surname.

3. **Ask the prospect for a return phone number.**

   If you have caller ID, verify that you have the best phone number to reach them. Don't assume that the number that they called from is the best return number.

After you get past the initial formalities, begin prompting the caller for the information both of you need. You need to know, for example, when the prospect is looking to move in, how many people (and the number, type, and size of pets, if applicable) will be residing in the rental, and what the prospect is comfortable with as monthly rent.

An easy way to remember the basic questions you need to ask are to remember the six w's — who, what, where, when, why, and how. (Yes, I realize that there are technically five *w's* and one *h*, but you get the point.) Use your notes and provide the prospect immediate feedback so that they know you're interested in their call and are really trying to determine whether your rental unit meets their needs.

Following are some examples of questions you can use to help determine your prospect's requirements:

- When will you need to move in?
- How many bedrooms do you need?
- How many people (including minors) will be living in the rental?
- What size rental are you looking for?
- What would you feel comfortable with as monthly rent?
- How long do you intend to live at this property?
- What specific features or facilities are you looking for in your next home?
- How much parking space do you require?
- Where are you living now?
- What's wrong with your current rental property, if anything?
- Why are you looking to move at this time?
- Where do you work (or attend school)?
- What do you do for a living?
- What's your gross monthly income?
- What types of pets do you have?
- When can you drive by the property?
- How can I reach you by phone?
- How did you learn about this property? Sign? Craigslist or other ad? Referral? Website? Flyer?
- Do you have any questions that I haven't answered?

This basic initial give-and-take of questions and answers helps you and the prospect quickly determine whether the conversation is worth continuing. The prospect is looking for the opportunity to eliminate your property if you don't have what they need at the time that they need it. Likewise, if it appears that your property may be a good fit, you still need to explore whether the prospect is qualified and meets your screening requirements.

WARNING

Be careful not to sound as though you're interrogating the prospect. Most of the questions in the preceding list don't give the caller much chance to talk; the prospect can answer them with one or two words. The conversation won't feel friendly if you just keep firing questions at the caller. Your goal is to let the prospect volunteer as much information as possible and to use the questions as prompts to keep good two-way communication flowing. Don't feel that you need to get all this information over the phone; you can fill in the blanks when you meet at the property.

TIP

Take notes so that you can summarize each prospect's needs and wants during the initial phone conversation. Bring these notes to rental showings so that you know what aspects of your property are of greatest interest to each renter. Also, people really appreciate the fact that you cared enough to write down and remember what they're looking for instead of just trying to sell them what you have to offer.

Selling the prospect on your property

A key element of success in selling a rental prospect on your property is your ability to build rapport with the prospect on the phone. As you answer their initial questions, take the opportunity to highlight some of the desirable or unique aspects of your rental. If the prospect asks about the number and size of the bedrooms, for example, you can reply, "The house has four bedrooms, each with a separate closet. The master bedroom is very large, at 15 feet by 12 feet. Will this accommodate your needs?" Or maybe you can say, "The backyard is completely fenced and is very large. Do you have any pets?"

Your goal is to turn the features of your property into benefits for the prospective tenant. To do so, you need to listen to what the prospect wants and then "sell" the specific feature of your property that fulfills that need, which you do this by painting a picture of the property in the prospect's mind. If they ask about the recreational facilities, and say that they enjoy working out after a stressful day at work, you might mention that your property has a swimming pool and then ask whether they find a refreshing swim to be a good stress-reliever after a long day.

You definitely want to tell your story about what a great rental property you have. Then, when you've grabbed the prospect's interest and determined that your unit meets their needs, you want to begin evaluating their qualifications in light of your requirements and needs. If you fail to hook the prospect, you never get to the next step. You want to be sure to prescreen the prospect during this initial phone call, of course, so that you invest your valuable time only in qualified prospects.

WARNING

Although the number of people who are willing to find and rent their new home sight unseen is increasing, the majority of your prospects will still want to see the property in person before making that final decision. The goal of the rental inquiry call is to get qualified prospects to see your property.

Prequalifying the prospect over the phone

After you pass a prospective tenant's basic-needs requirements, begin asking your own qualifying questions. You need to confirm when the prospect is looking to move, the size of the rental they require, and their financial qualifications. Both you and the prospect need this basic information, so together, you go through this ceremonial dance with the goal of advancing to the next stage: the showing of the rental unit.

But how do you know what to ask or what to listen for when prequalifying prospects? Read on for some guidance to help you find the best tenants for your rental property.

Holding a balanced conversation

Think of a rental inquiry call as being a tennis match, with each side taking a turn presenting questions and gathering the answers needed to make a decision. Ultimately, both parties must agree that the unit meets the needs of the prospect and that the prospect meets the owner's tenant screening criteria. The first step toward achieving your main objective of the call is getting a commitment from the prospect to make an appointment to see your rental unit in person.

Using open-ended questions and a pleasant manner, obtain basic information from the prospective tenant to determine whether they meet your rental requirements. Your goal with open-ended questions is to get your prospect to talk to you and give you the information you need. "Why are you moving at this time?" is an open-ended question, for example. Closed questions can be answered with a yes or no or one or two words. "What size apartment are you looking for?" is a closed question.

TIP

You want to achieve a balance between open-ended and closed questions. A good rule of thumb is not to ask more than three closed questions before inserting one that's open-ended. Doing so keeps the discussion from feeling like an interrogation.

You should also determine whether you're speaking with the actual decision-maker or whether this prospect is really gathering information for someone else. Although you always prefer to deal with the primary decision-maker from the initial contact on, you need to be skillful in prequalifying all the prospects without alienating your immediate contact, because the immediate contact is likely to have considerable influence on the decision as well.

The answers to your basic questions determine whether you need to go on to the next step. If you currently have only a studio apartment available, there may be no need to show this unit to a prospect who says that six applicants are planning to

live in it. But some fair-housing advocates may claim that you're discriminating on the basis of family status or national origin if you don't show it.

REMEMBER

Your goal during the rental inquiry call is to give the caller enough information about your property that they can determine whether they have enough genuine interest in it to see it in person. Likewise, you want to obtain enough information about the prospect and their co-applicants to prequalify them for your rental property. Matchmaking is a two-way street.

Naturally, not every property is a match for every prospect. Your goal isn't to convince all callers that they must see your property in person. Showing a unit to an uninterested or unqualified prospect is one of the most frustrating experiences in a rental management career. Showing property to qualified and interested prospects, however, is one of the most important factors in successful time management for rental property owners and managers.

Eyeing the qualities of desirable (and not-so-desirable) tenants

You can begin the process of prequalifying your rental prospect over the phone instead of waiting until you meet them when they tour the property or complete a rental application. By chatting with a prospective tenant during the first phone call, you're starting the all-important screening process then and there.

TIP

Determining whether a prospect is qualified is easy if you know what to look for. You need to verify this information before making a commitment to rent your property, of course, but if you can say yes to each of these statements, chances are that you have a qualified prospect:

- You have a rental of the appropriate type and size available when the prospect needs it.
- The prospect meets your minimum qualifying standards for income, credit history, and employment history.
- The prospect has enough cash to pay the entire first month's rent and the full security deposit.
- At least one of the prospects is of legal age to sign the rental contract.
- The proposed number of occupants is appropriate for the particular rental unit.
- The prospect has an acceptable rental history and is vacating current living accommodations legally, without any unpaid rent or other amounts owed.
- The prospect is willing to live within your property guidelines, such as no pets or no smoking allowed in the rental unit.

When trying to identify qualified prospects, you also want to watch out for less-desirable prospects who don't meet your rental criteria. During the rental inquiry call, make sure that you're not dealing with a *professional tenant* — someone who jumps from rental to rental frequently. Even during your first call, certain red flags may indicate that you're dealing with someone who's trouble, such as a prospect who asks few questions about the property and the area but is very interested in things like your move-in special or whether you can lower the rent or allow the security deposit to be paid over the first three months.

WARNING

If a prospect seems to be interested in moving in too quickly, watch out. Although you may think that finding someone who wants to move in right away is great for cutting your rent loss, this eagerness may be an indication that the person has something to hide or is looking for their next landlord victim. Maybe their current landlord just served them eviction papers for nonpayment, and they need to leave before they're removed. It can take up to two or three months for eviction actions to become a matter of public record, so your prospective tenant's credit report may turn up clean initially even if they've had recent problems. Be wary of subtle hints of trouble as early as the first phone call.

TIP

This scenario is a good example of how informative it can be to call both the current landlord and a previous landlord. The current landlord may not tell you the full story, as they are glad to rid themselves of a troubled tenant, but the previous landlord will likely be candid and warn you that your overeager prospect will be your next eviction if you're not careful.

Handling phone objections

If you've done your homework, you're well prepared and know the answers to questions about the rental unit and the surrounding area. Being prepared for rental inquiries includes anticipating reasonable objections and providing honest answers to your prospect. Your goal isn't to persuade the unqualified prospect who truly isn't a good match for your property to waste everyone's valuable time by seeing the unit. Instead, your goal is to anticipate some of the most common objections and have info ready that allows you and the prospect to determine whether mutual interest is high enough to warrant showing the unit.

TRUE STORY

I once managed a rental property in a centralized location that was right under the flight path of a major airport. The location, near major employment and recreational centers, made the property very desirable, but the proximity to the airport was quite obvious, and it was well known that many properties in the area had significant problems with noise. Almost all the rental prospects who visited the property raised this concern, but even many of the callers brought up the noise because they were familiar with the area. What they didn't know was that when the property was built, the architects designed the rental units with special double-pane soundproof windows and extra insulation so that interior noise

wasn't a problem. Knowing the perception of properties in the area, we mentioned the soundproofing features up front in our phone rental presentation. If your property has what a prospect might perceive to be a fatal flaw, and you have provided a fix, you should consider mentioning it in your advertising as well.

You may hear the complaint that your older, 20-unit rental property doesn't have individual washers and dryers in every unit, as competitive properties in your area do. Instead, your property features a centralized laundry room with new washers and dryers and a large folding table for tenants' convenience. Anticipating that some prospects are looking for individual washers and dryers and will raise an objection when you don't have this feature means that you're prepared. You know that the competitors have smaller units with less storage because the washer and dryer take up important closet and storage space. You also know that your competitor's tenants have to pay for water, and that the in-unit washers and dryers have high utility charges and small capacities, whereas you pay for water at your property; your central laundry provides all the utilities and allows tenants to do several loads at the same time. You can politely mention these important facts to prospects over the phone. When showing the rental unit to a prospect, you can provide the comparison chart covered earlier in this chapter.

TIP

CREATING A SENSE OF URGENCY

When you ask your prospect to come out and see your property, you may get a noncommittal response or the excuse that they can't make it, no matter how many different appointment times you offer over the next week. The most popular excuse you can expect to hear is that they've just begun calling, and your rental property is the first one they've called. This statement may be true, so you need to be polite and patient. But if you're truly the first call, it's likely that they called you first for a reason: your advertising made your rental sound like the best option. Patience can be a virtue, as long as you're not *too* patient.

Be honest, but don't hesitate to let the prospect know that you've already received (or will soon be receiving) many more rental inquiry calls. Let them know that it's your intention to sign a rental contract with the most-qualified rental prospect, but that you also process the rental applications in the order in which you receive them. So if you have two or more qualified applicants, you may lean toward the first qualified prospect who submitted an application. This knowledge creates a sense of urgency for the caller.

If you anticipate receiving interest in your property from multiple callers, set up one or two open houses so that you can show the property to several interested prospects in a couple of hours instead of making multiple trips. In tight rental markets, this method often creates a competitive or even auction-like environment, in which one prospect doesn't want to lose out to another. There's nothing like a little competition to instill a call to action in potential renters!

Converting phone calls to rental showings

If your initial phone conversation goes well, the prospect will want to tour your rental property. You've already invested a lot of time and energy in the rental inquiry call, so this tour is the moment of truth, when you find out whether your prospect is really interested in your rental. Maybe they're gathering information for a future move or checking out similar rental properties to determine whether the rent increase they just received from their current landlord is justified.

You've answered a lot of questions, taken careful notes highlighting the prospect's needs and wants, and built rapport. You wouldn't have invested this much time in a prospect unless you feel that your rental meets their needs and that they're likely to meet your tenant screening criteria. Now isn't the time to become passive and tell the prospect to call you back if they're interested. Neither is it the time to sheepishly suggest, "Stop by the open house this weekend, if you're in the neighborhood."

TIP

You need to be assertive. Come right out and ask the prospect to visit your property so that you can personally show them your rental unit — and be sure to set a specific appointment. If the prospect shows any signs of hesitating, you need to ask directly whether something is wrong. The prospect may admit that they've just filed bankruptcy or plans to use your property for an iguana farm. Asking questions is one of your best tools; be sure to do it.

The prospect may indicate that they're interested in the property based on your conversation, but they want to drive by it before making an appointment for a showing. This arrangement is fine and can be another useful tool in maximizing your efficiency as a rental property owner. Two scenarios can happen if the prospect wants to do a drive-by before scheduling a showing:

- They call back and ask for an appointment or the time of your next open house, so you can rest assured that they'll show up.
- They drive by the property and find that it's not suitable for them.

In both cases, allowing the prospect's drive-by is a positive step. In the former case, the prospect isn't presold on the area and curb appeal of your property alone; in the latter, the prospect doesn't waste your time scheduling a personal tour.

TIP

A great technology that has been becoming increasingly popular, especially since the COVID-19 pandemic, is self-guided 3D virtual property and unit tours. At first, the technology was limited to 3-D viewing of a rental unit, but has been expanded to provide excellent information on the features and benefits and amenities of the entire community. More prospects expect to be able to see your rental property online from the comfort of their own home at any time of day or night. Rental

property owners and managers should look for 3D virtual tour software that is easy for you to use and allows you to use your own smartphone (unless you have a larger property, in which case hiring a professional might make sense).

WARNING

Many rental management advisers suggest that you improve your efficiency by allowing prospective tenants to tour your property on their own. These advisers suggest giving prospects the combination to a lockbox at the property or allowing them to drop by to pick up a key. You should ask for a cash deposit (say, $25) or hold the prospect's driver's license as an incentive to return the key. I strongly advise against such a practice, however. You may find that a prospect stripped the appliances or severely damaged the property while inside. Worse, a prospect may decide that your property is perfect and move right in! Then, you will find out how difficult it is to regain possession of your own property even from an unauthorized squatter!

Many prospects make a showing appointment only to drive by the property a few minutes early and leave if they don't like what they see. In another common scenario, a prospect has already decided that your rental isn't going to be their next home, no matter how great the interior is or how competitively you price the rental. But they feel guilty and don't want to skip out on you, so they show up for the appointment and go through the motions of looking at everything for close to an hour. Imagine how many hours you'd waste because your prospect takes the opportunity to gauge the neighborhood and curb appeal of the property before meeting for a scheduled showing but goes through the charade anyway. This is why giving the prospect your mobile phone number can increase your efficiency.

TIP

My son Stephen has become quite adept at minimizing no-shows. He highly recommends telling applicants that you'll call them an hour before the scheduled showing to confirm that the agreed-upon date and time still work. Even the best-intentioned applicants can have last-minute changes in their schedules and inadvertently forget to let you know or are embarrassed to cancel, so they eliminate your rental property from further consideration, when a quick call to confirm or reschedule would work best for everyone.

Planning for Open Houses and Walk-Throughs

One of the most time-consuming tasks of owning and managing rental property is filling vacancies, and the biggest time trap for most owners who don't have a system in place is the rental showing. If you were to schedule a separate appointment with every interested rental prospect, you'd be making endless trips back

and forth to the property. Unless you live or work very close to your property, you may find that you're spending hours showing the rental to one prospect after another. For that reason, having a strategy for showing your rental — whether you plan to have an open house or set up individual appointments — is the best way to go. The next few sections can help you formulate that strategy.

Holding an open house

Because your time is valuable, and many qualified prospects are interested in seeing your property, you may want to consider holding an *open house.* An open house allows you to show the property efficiently to several interested prospects within a couple of hours. A successful landlord doesn't make a dozen trips to show property to a dozen different prospects. Open houses are also beneficial because having multiple prospects viewing the property can create a sense of urgency and competition, which often generates multiple applicants for your property.

Another benefit of holding an open house is that many prospects feel more comfortable touring a property with other prospects around. These folks may be concerned about meeting someone they don't know in a vacant rental property. You should be concerned about your own personal safety for the same reasons. Holding an open house can eliminate, or at least reduce, any safety concerns that you and your prospects may have.

Still, it's nice to be able to focus on one prospect at a time. So it may be beneficial to schedule appointments during the open-house time frame but stagger them a bit so that you can spend a little quality time getting to know each candidate.

TIP

Select a time for your open house that's convenient for you and most working people (preferably during daylight hours). An open house on Saturday from 11 a.m. to 2 p.m. usually gives rental prospects a good opportunity to see your property at a convenient time. During the summer months, a weekday afternoon from 4 to 7 p.m. may be a good option. Combining a weekday-afternoon open house with one on the weekend can also be very effective. That way, virtually all prospects can fit the showing into their busy schedules.

REMEMBER

An open house promoted strictly in a newspaper ad isn't a good idea, because you may end up with many unqualified renters walking through your property. But an open house to which you invite all qualified prospects you've spoken with is a good way to lease your rental efficiently. And nothing instills a sense of urgency like multiple applicants for the same rental unit!

Scheduling individual appointments

If you're in a depressed rental market or find that you need to fill a vacancy during the holidays, you may not be able to generate enough interest to schedule an open house for multiple renters. In this case, you need to be prepared to show your unit in the evenings and on weekends, because those times are often when prospects are available. You can still try to consolidate your appointments in a certain time frame, but don't push this scheduling too far. Asking prospects to conform to your calendar may turn them off.

TIP

If you have to schedule individual appointments to show your property, be sure that you have your prospects' mobile phone numbers. Almost everyone has a cellphone or smartphone these days, so call or text each person to verify the rental showing before making a special trip to the property. By calling, you're also reassuring the prospect that you'll be there and won't be delayed.

WARNING

Crime is a concern in virtually all parts of the United States. Making an appointment to show a stranger your property can be an opportunity for someone who is criminally inclined. Be alert, and take reasonable steps to protect yourself. If you ever have an uneasy feeling about a prospective tenant, decline the showing rather than risk personal injury. Limit your showings to daylight hours, and bring someone with you, if at all possible. If you prefer, tell your prospect to meet you outside, in front of the property or at another nearby public location, and require a picture ID before showing the unit. Then call, text, or tweet a family member or friend, and tell that person the name and driver's-license number of your prospect. You can also have someone call you on your mobile phone to check in throughout the showing. (***Note:*** A text or tweet isn't enough in this case; you want the prospective tenant to hear the phone ring.) If you ever feel uncomfortable, be polite yet firm, end the rental tour, and leave immediately. Don't ever put yourself in a dangerous situation!

Providing directions to the property

When you have a commitment from a prospect to come to the property for an open house or showing, make sure that you provide clear, easy-to-follow directions from anywhere in your area. Online and smartphone mapping programs are so prevalent and sophisticated that you can always ask prospects where they're coming from and find the exact directions to get them to your property. Then you can offer these step-by-step directions to your non-tech-savvy prospects.

TIP

Ask prospects whether they have a pen to write down the directions. It may seem silly, but writing down the directions to your property strengthens a prospect's commitment to keep the appointment.

For your technically advanced prospects, you can forward the directions right to their tablet, smartphone, or mobile device. These prospects need only your property address; they can provide their own personalized directions from their location to your property.

TIP

Because many of your prospects likely have Internet access, providing directions to your property may not seem to be a priority. But giving directions may not be quite as simple and unimportant as you think. Often, the technologies to which prospective tenants have access don't offer the most scenic or time-efficient path to your property. You always want to offer your own directions or at least suggest a route that approaches your property from a certain direction.

Carefully consider the best route for your prospects. Take into consideration the traffic conditions they'll face at the time of the open house or appointment. Think about which route presents the neighborhood in the best light. You want the route to be direct, but don't hesitate to have prospects come in from a different direction if doing so provides them important information, such as the great shopping, schools, or other benefits of the area near your property.

IN THIS CHAPTER

- Taking prospective tenants on a tour of your residential rental property
- Persuading prospects to rent with you
- Giving tenants the scoop on the environmental safety of your property

Chapter 10

Strutting Your Stuff: Making Your Property Memorable

To rent your property successfully, you need to show prospective renters why yours is better than all the others on the market. After you take the steps to prepare your property (see Chapter 5) and market it (check out Chapter 7), it's time to let prospective renters see what you have — and entice them to sign on the dotted line in the process.

In this chapter, I cover the proper way to show a rental unit, handle objections (which are actually an indication of prospective tenants' interest), and close the deal. I also make sure you're aware of important government-required disclosures that all rental property owners or managers must share with their tenants.

Showing Your Rental Unit

When your rental prospects arrive, you want to make a good first impression. Be sure to greet them with a smile and introduce yourself. Ask them whether they found your directions accurate and easy to use. Ask for their names, and greet

them warmly. Refer to the notes you made on the prospect card during your initial phone conversation to let them know you remember speaking with them. (Flip back to Chapter 9 for tips on how to conduct this conversation.) This thoughtfulness gives prospective tenants the good feeling that you're not just going through the standard rental spiel.

Listen to any questions or concerns that may have come up since you spoke on the phone, and ask whether they have any other needs in a rental property that you haven't already discussed.

Don't let your prospects wander through the rental unit by themselves. (This general rule is particularly true if you're showing an occupied rental unit.) Listen carefully to your prospects and anyone who's accompanying them as you informally guide the party through the unit. Pay close attention to the features your prospective tenants indicate are of particular interest or to any comments they make during the walk-through. But be careful not to come across as too pushy or overselling, because this behavior turns off a lot of qualified prospects who dislike pressure-selling techniques. For more information on preparing your rental for walk-throughs, see Chapter 5.

No matter whether you're showing a vacant rental or one that is occupied, the next two sections focus on what you need to do to get your property rented.

Showing a vacant rental

If you're showing a vacant rental, act more like a tour consultant than a tour guide during the unit tour. Don't be too controlling; instead, let the prospects view the rental in the manner that suits them. Some prospects go right to a certain room, which gives you a clue about the importance they place on that aspect of the property. If the prospects hesitate or are reluctant to tour on their own, of course, you can casually guide them through the rental property yourself.

There are as many ways to show a rental unit as there are rental property owners. Remember the information provided by each prospect, and customize the tour by beginning with the feature or room you feel has the most interest for them. Don't head straight to *your* favorite feature. When in doubt, start with the kitchen and then transition to the living areas and the bedrooms.

REMEMBER

Keep the following pointers in mind when showing a vacant rental:

- **Encourage your rental prospects to see the entire rental property.** Don't overlook any garage or storage areas and the exterior grounds or yard, if applicable. You want to be sure that prospective tenants have an opportunity to see all parts of the property and ask any questions. Besides being a good

sales technique, this approach minimizes any potential discrimination claims by a prospect that you were selectively showing your property.

- **Observe the body language and facial expressions of your prospects while they walk through the property.** When you begin showing the interior of your rental, avoid making obvious statements such as "This is the living room" or "Here's the bathroom!", which are insulting. They can see what those rooms are used for. Instead, ask them how they'll arrange their furniture or entertainment center. Try to incorporate any needs they've expressed into the unit showing. You don't need to oversell if your prospective tenants seem to be pleased, but you should feel free to point out the benefits of your property. (Pay attention to prospects' reactions and comments; then chime in with something along the lines of "It sounds like this neutral-colored laminate hardwood flooring will go great with your living-room furniture" or "The view of the sunset from the kitchen is so relaxing.")
- **Have a tape measure with you.** Vacant rental units look smaller than occupied ones, so a tape measure can assist your prospects in immediately determining whether their bedroom set will fit in the master suite. Know the standard dimensions for both king- and queen-size beds and the typical sizes of nightstands and dressers. It helps if your prospective tenants can begin to imagine themselves living in the unit. If your prospects express concerns that their furniture won't fit, set up a partially or fully furnished model rental unit to demonstrate what furniture will fit inside. Although this tactic may not be feasible for most single-family homes or condos, it can work quite well for medium-size to large apartment properties that regularly have vacant units or have a market for furnished rentals. Smaller rental properties can use a *vignette,* which is a rental unit decorated with towels, books, and knickknacks to give the unit personality. Sometimes, you can even close the sale by offering to give new renters these small items.

TIP

If you're holding an open house, you may find yourself dealing with multiple prospects who seem to have better timing than a synchronized swimming team. Do your best to courteously greet and speak with each prospect individually. At the very least, cover the basic information and get the first prospects started on the property tour before beginning to work with the next prospects. Try to avoid the temptation to have a simultaneous or single-group showing with all prospects, as that will increase the likelihood that one, more, or even all prospects will feel that they didn't get the attention they deserve or the chance to ask their questions; they may feel intimidated or may not want to draw attention to themselves. Be sure to make it clear that you'll answer all questions and treat all prospects similarly: openly and fairly. to avoid any allegations of favoritism or discrimination.

REMEMBER

Take each prospect on a separate individualized tour, because you're less effective spreading your attention among several prospects.

Showing an occupied rental

If you're showing an occupied rental unit, be sure to consider the inherent advantages and disadvantages of doing so. On the plus side, your current tenant can be a real asset if they're friendly and cooperative and if they take care of the property, because prospective tenants may want to ask questions about their living experience. But not all tenants will take the same level of care with your property or want to help you rerent it when they're getting ready to move.

Always keep these tips in mind when showing an occupied rental unit:

WARNING

- **Consider your current tenant's attitude.** If they are being evicted, aren't leaving on good terms, or have an antagonistic attitude for any reason, don't show the unit until after the property is vacated. Your tenant's cooperation will be required, but you may be able to complete your rent-ready preparation work and any upgrades at this time as well.

  This strategy also works if your current tenant hasn't taken good care of your property's grounds or landscaping, or if their furnishings may be objectionable to some prospective tenants for any reason. Remember my rule "no surprises"? That rule applies here. Never show an occupied unit that you haven't previewed.

- **Know your local laws regarding showing occupied units.** In most states, if the tenant is at the end of their lease or have given notice to vacate, the owner is specifically allowed to enter the property to show the unit to a prospective tenant. You must comply with state laws, which require you to give your current tenant written notice of entry before showing the unit. They may agree to waive the notice requirement, but make sure that you have this agreement in writing.

- **Work with your tenant to coordinate scheduling.** Do your best to cooperate with the current tenant when scheduling mutually convenient times to show their rental unit. Be sure to respect their privacy, and avoid excessive intrusions. To ensure the cooperation of your tenant, you may even want to offer them a small bonus after they vacate as part of their security-deposit disposition.

TIP

- **Try to get copies of recent utility bills from your current tenant.** Having current bills on hand is helpful if your prospective tenants have any questions about utility costs. Electricity, natural gas, water and sewer, and trash service are becoming significant items in the budgets of many tenants. You don't want your new tenant to be unable to handle the typical monthly utility costs of your unit, because this difficulty may affect their ability to pay your rent. If your property has "green" or energy-efficient features or appliances, you may be able to use low utility costs as a marketing tool.

TRUE STORY

THE TROPHY ROOM

Recently, I had the chance to view a property that was for sale or available to be rented fully furnished with a long-term lease. The property was spectacular, with many great features and amenities, and was in a private gated community with a golf course. The property tour was going well until the owner's broker began showing the recreation room. The room was the size of a small gymnasium, but all the walls were covered with trophy heads of all the large animals that the property owner (an avid hunter) had killed.

Although the property owner certainly was very proud of their accomplishments and had every right to decorate their own home as they pleased, when you are going to offer your property for sale or as a rental, you need to consider that some prospective purchasers or tenants may not share the same feelings about displaying animal heads as trophies.

REMEMBER

Although the current tenant may legally be required to allow you and your prospects to enter the unit for a showing, they don't have to make any effort to ensure that the property is clean and neat. Neither are they required to help you in your efforts to impress the prospect. Keep this fact in mind when deciding whether you want to show your unit while it's still occupied. Also, a financial incentive can result in a more cooperative outgoing tenant.

Taking the First Steps to Get the Renter Interested

Although some rental units may rent themselves, your success as a property manager may be directly enhanced if you become skilled in presenting the best features of your unit properly. You should use the meeting with your prospective tenant to evaluate whether the unit is a good fit.

This section walks you through the steps of prequalifying your tenant, handling objections, and closing the sale with a completed rental application. I also cover the advantages of having priority waiting lists and holding deposits.

Prequalifying your prospect during the rental showing

While you're touring the rental, prequalify the prospective tenant by verifying the information they provided during your initial phone conversation. Refer to your notes, and confirm the tenant's desired move-in date and ability to pay the rent, number of occupants, rental rate, and other important information. Also make sure that they're aware of your rental policies, including any limitations on pets or other important issues.

TIP

In today's world, everyone has a personal communication device with them at all times, so you will receive calls, texts, or emails at all hours of the day and night. Although a timely response can make the difference between getting the best tenant for your property in a short time, you need to avoid the temptation to communicate with a prospective tenant when you cannot give them your full attention. Respond only when you can do so without distractions or background noise, as you need to listen carefully, make notes, and personalize your future communications to make that prospective tenant realize that you are interested in them individually. You don't want them to feel that you are just an order-taker who has no interest in treating them as a valued person. If you don't show them the personal attention they expect and deserve, you're not only reducing your chances of getting that best prospective tenant, but also sending a subtle but clear signal that you will not be willing to take time with them when they are your tenant. Now more than ever, tenants can find property owners and managers who will make them feel special and will treat any communication from a prospect or a current tenant with the attention and high-caliber customer service they deserve.

You don't want to be abrupt or refuse to let a prospect begin looking at the property until they answer numerous questions. But verifying the basics up front can save a lot of time if there's a misunderstanding or if the prospect's needs change. Your time (and theirs) is valuable, which is why you want to confirm — politely yet directly— as early as possible that there are no deal-killers for either you or the prospective tenant.

WARNING

If you don't take the time to review the information a prospect provided on the phone, as well as your rental terms and expectations, you may find that the prospect glossed over certain problems or indicated that your rental policies were acceptable when they really weren't. This person's strategy is to wait until you think you've successfully rented the unit and are just about to sign on the dotted line; then they'll spring the truth on you. Maybe a dying relative suddenly asked them to care for a 100-pound Doberman, or their paycheck was delayed and they can pay your security deposit only in installments. You don't need these surprises, so confirm all the basics sooner rather than later.

Resolving your prospect's objections

Almost every rental prospect expresses some concerns or reservations about the property, the area, your rental rate, or other terms. No rental property exactly meets the needs of each prospective tenant, so don't be caught off guard when you inevitably run into objections.

Objections come in many forms. Some objections are a test to see whether you'll lower the rent or make some improvements to the property; others are sincere issues that are generally more tangible and specific in nature.

If you've been listening carefully to the prospect and taking notes, you can anticipate and handle some objections before the prospect even raises them. In many instances, objections can present an opportunity to reassure your prospect that your property meets their needs.

REMEMBER

If the prospect raises a question, and you don't know the answer, make a note and promise to get back to them as soon as possible. Avoid the temptation to give an immediate answer that may be incorrect. Why? Some prospects ask questions to which they already know the answers just to test your sincerity. You can overcome most objections if you discuss them openly with the prospect and respond honestly. Giving the prospect a response and answering positively is important.

Convincing your prospect

After you qualify the prospect, you need to convince them that you have the best rental unit available. Renters want more than just a place to live; they also want to feel that they can communicate with you and rely on you to resolve any problem that arises in a timely and appropriate manner. They also appreciate someone who shows interest in their needs and expectations of their potential new home. By showing interest, you're clearly setting yourself apart from other property owners and managers. You don't want to be nosy or aggressive, but I believe that prospects accept rental units that aren't exactly what they're looking for if they have positive feelings about the owners or managers.

TRUE STORY

I realized how important the property manager can be to renters when I transferred a popular manager from one property to another very early in my property management career. Ginny had been our on-site manager at a 300-unit rental property for nearly five years before we gave her a promotion to a 400-unit rental community a few miles away. I was shocked when more than 50 of Ginny's current residents decided to give notice and move with her to the larger property, despite its higher rents and less-desirable location. Ginny had established a trusting relationship with these residents. She was a determining factor in their rental decision. They were willing to pay more rent and experience the substantial inconvenience of moving just to have Ginny as their on-site manager.

I've never seen a rental unit that can rent itself; you need to make the difference. No matter how closely your unit meets your prospects' needs and wants, they often hesitate and doubt their own judgment. You don't need to be pushy, but you should be prepared to actively persuade prospective tenants that your property is right for them.

REMEMBER

The best way to avoid problem tenants who pay late, damage your property, or disrupt the neighbors is not to rent to them in the first place. Screening your next tenant begins with the very first phone call. Tell the prospect you'll run a credit report, perform a criminal-background check, and call references. Don't waste your time with prospects who don't seem to fit your criteria as high-quality, stable tenants.

Inviting your prospect to sign on

When you've convinced your prospect that your unit is the right one for her, it's time to close the sale. At this point, many rental property owners and managers suddenly become uncomfortable or get cold feet. They do a great job of handling the initial telephone inquiry, preparing and showing the property, and even resolving objections, but when it comes down to asking the prospect to commit, they become shy and freeze. They simply can't make the sale!

Many prospective tenants may first contact you via email or text from their smartphones or tablets. These days, even tenants relocating from another part of the world have the ability to communicate instantly and affordably. Many rental properties can be viewed online anywhere in the world, which makes for much more knowledgeable prospective tenants, but you still need to fill some gaps to make sure that you and your new tenant are a good fit. Text and email are wonderful communication technologies, but they're often used improperly as a substitute for a good old-fashioned phone call, in-person meeting, or showing of the rental unit Always respond to a prospective tenant's emails promptly and professionally, and answer any basic questions, but your goal should be to get the prospect in a two-way dialogue on the phone.

TIP

Your goal is to receive a rental commitment from the prospect by having them complete your rental application and pay any pre-move-in screening fee, her first month's rent, and a full security deposit on the spot. You still need to screen the prospect thoroughly, of course, and confirm that they meet your rental criteria before asking them to sign a rental contract.

If, despite your best efforts, the prospect is still undecided, make sure that they give you a holding deposit. Remind them that you may make a deal with the very next prospect, and they'll be out of luck. If you have a lot of demand for your units, you should develop a priority waiting list, which is covered later in this chapter in the section "Developing priority waiting lists."

Having your prospect complete a rental application

You need to offer every interested prospect the opportunity to complete a written rental application for two important reasons:

- **You want to have all the information so you can begin the screening process and select the best tenant for your property by using objective criteria and your rental requirements.** The rental application is the key document for verifying information and conducting your entire prospective tenant screening procedure. I cover tenant screening in more detail in Chapter 11.
- **You want to avoid having prospects claim that you discriminated against them by not permitting them to fill out the rental application.** Don't prejudge an applicant. The prospect may have already volunteered enough information about their financial situation and tenant history that you believe it would be unnecessary to complete an application. Even in such a situation, always be sure to offer your application to every rental prospect of legal contracting age, and keep even the rejected applications for a minimum of four years.

TIP

Go to `www.wiley.com/go/propertymanagementkitfd4e` to access a sample rental application.

Have several rental applications and pens available at the property. Although you want to offer an application to every prospect, you don't want to hand it out and let the prospect leave without making a commitment.

TIP

Here are some important guidelines to remember when having prospects complete rental applications:

- **Every prospective tenant who is currently 18 or older should complete a written application.** This rule applies whether the applicants are married, are related in some other way, or are unrelated roommates.
- **Before accepting the application, carefully review the entire form to make sure that each prospect has clearly and legibly provided all requested information.** Pay particular attention to all names and addresses, employment information, Social Security or Individual Taxpayer Identification numbers, driver's license numbers, and emergency contacts. Ask for documentation about any discrepancies in the information provided on the application and through third-party credit reports or employment verifications. Also ask about any gaps in employment. Any blanks should be marked N/A if the items aren't applicable so that you can tell those items weren't overlooked.

- **Each prospective tenant must sign the application authorizing you to perform your pre-move-in screening, verify the information, and run a credit report and criminal-background check.** You can't legally obtain and review a consumer credit report without an applicant's permission.

  Note: Make sure that your rental application contains the proper disclosure language. The law recently changed in California, for example, and the standard applicant disclosure language that followed federal Fair Credit Reporting Act (FCRA) guidelines is no longer acceptable, per a recent ruling by the California Supreme Court.

- **All prospective tenants need to show you a current driver's license or similar government-issued photo identification so you can confirm that they're providing their correct names and current addresses.** Identity theft is a growing concern; make sure that you know exactly who you're renting to.

WARNING

You may be asked by the prospect — or you may decide on your own — to go over the rental application with them and assist them in providing the information. If you do so, be very careful to ask only questions that are part of the application. Avoid asking questions that may directly or indirectly discriminate. In all states, don't ask the applicant about their birthplace, religion, marital status, children, or physical or mental condition. You *can* ask whether they have ever been convicted of a crime and whether they're at least 18 years old.

TIP

With laws changing significantly, you should contact your local Institute of Real Estate Management chapter or Apartment Association affiliate to learn the current legal limitations on rental applications and use only the most current rental application form that has been reviewed by legal counsel for your state. Rental application forms that have been in use for years may no longer meet changing legal requirements, and you are asking for a lawsuit if you inadvertently use an outdated rental application that even innocently asks for information you can no longer legally request.

Holding your prospect's deposit

Some rental prospects are willing to make firm commitments, but they either won't or can't give you the full security deposit and first month's rent. Maybe they don't have the funds at the time, or maybe they want to reserve your rental while looking for a better property. In these situations, you may want to ask for a holding deposit to allow you to take the unit off the market for a limited time while you obtain a credit report or verify other information on the rental application.

TIP

Don't allow the prospect to reserve your property with a small holding deposit for more than a couple of days. In most circumstances, if you have a properly completed rental application, two days provides sufficient time to screen the prospect; any additional time that the unit is off the market often is lost rent. After you approve the prospect, try to have them sign the rental contract. If the prospect still insists on additional time, have them agree to pay the daily rental rate or refund their holding deposit and continue your search for interested prospects.

By taking the rental unit off the market, you forgo the ability to rent it to someone else. If the prospective tenant fails to rent your property for any reason, you've potentially lost revenue while the unit has been vacant and reserved. On the other hand, rental prospects don't want to pay rent while you're running them through your tenant screening process. The solution is to use a written holding deposit agreement and receipt, which outlines the understanding between you and the prospective tenant. To access a sample holding deposit agreement and receipt, go to `www.wiley.com/go/propertymanagementkitfd4e`.

WARNING

If you use a holding deposit, you must have a written agreement; otherwise, you're likely to encounter a misunderstanding or even legal action. State laws regarding holding deposits vary, yet they're almost uniformly vague and can easily lead to disputes. My advice is that you never retain funds from a holding deposit that exceed the amount of the daily rental rate for the days you had the unit off the market. If it's perceived that you've collected more money than the rental value for the lost days, your former prospective tenant will have a credible argument if the matter is brought to court.

Developing priority waiting lists

If several qualified rental prospects are interested in your rental unit, you'll be able to rent to only one of them. This position is an excellent one to be in, but it may indicate that your rent levels are lower than the market will allow, and you can consider raising your asking rents. Use the tenant selection criteria covered in Chapter 11 to select the most-qualified prospect.

TIP

If you have other qualified prospects, you may have other units at the same property, or in proximity, that might interest them. If those other units aren't available, you may be able to offer your prospects a spot on your *priority waiting list*, which is a way to keep track of qualified tenants for whom you don't yet have available rentals. This situation is a dream come true for many rental property owners and managers.

If potential tenants express an interest in renting your property at a future date, and you know that other rentals are available in the area, the prospects may be interested because your rents are lower than market value. Otherwise, they'd find a comparable rental somewhere else. If you have a long waiting list, make sure

that it's because your property is desirable, not because you're charging too little in rent.

Some prospective tenants are simply looking for a great rental property weeks or even months in advance of moving. Although you can't hold your property vacant and off the market until these folks are ready to rent, you can lock them in for one of your units that may be coming available at the time they're prepared to move. This situation is especially typical for prospects relocating from out of town who are looking for a rental a few weeks or months before they officially move. You may be able to prerent your units even before they become vacant, which is a great position for any property manager to be in.

TIP

When you create a priority waiting list, don't just write the prospects' names on a piece of paper. This approach is not a commitment, and the chance that those prospects will return to rent from you is marginal. Prospective tenants' levels of commitment increase if you prequalify them, take partially refundable deposits, and give them written confirmations that they're on your priority waiting list. Note that the partially refundable deposit here is different from a holding deposit, because you don't have a vacant unit; thus, you aren't losing any rent with a unit sitting vacant. You may even want to offer to lock in a starting rental rate if they rent from you within a certain number of months.

Inform your prospects that they're on the waiting list. Also, if you own multiple units, be sure to let your prospects know you can't guarantee that a certain property or unit will be available when they're ready to move in, because you don't know and can't control when your current tenants will vacate. Give prospective tenants the right to cancel, and let them know that the portion of their deposits not used for the tenant screening process is fully refundable.

WARNING

As with all rental policies, you need to apply your priority waiting-list policy uniformly to all prospects to comply with fair-housing regulations. If you've already prequalified your waiting-list prospects, a policy of first come, first served makes a lot of sense. So if you have a priority waiting list, be sure to notify all prospective tenants about it, and don't refuse to add anyone to the list. Otherwise, you risk claims of discrimination.

Handling Mandatory Disclosures and Environmental Issues

One of the major challenges in being a successful rental property owner is keeping abreast of the evolving health and safety requirements in your state that affect rental properties. In addition to providing your tenants a clean and habitable

property, you need to take precautions to ensure that the rental is a reasonably safe and healthy environment.

Failure to comply with required state and federal disclosures has certain legal implications and potential liability. Most rental property owners don't want their tenants to become sick or injured. In the following sections, I cover some of the most common issues facing rental property owners today.

New federal, state, and local legislation is constantly being considered and discussed, and rental property owners must be current on all requirements or risk serious consequences. Go to www.wiley.com/go/propertymanagementkitfd4e for links to state landlord–tenant laws to find out about any state disclosure requirements.

Lead-based paint

As a rental property owner, you need to be aware of the dangers of lead and the federally required disclosures regarding it. Most states also have lead hazard reduction laws in place, some of which require testing and careful maintenance.

Although lead-based paint isn't a hazard when it's in good condition, it can be a serious health issue, particularly for young children, when it cracks, peels, or turns to chalk because of the aging and deterioration of the paint. Lead has been banned from paint since 1978, but older housing units may contain paint that was manufactured before that time. You can't tell whether paint contains lead just by looking at it; a special lead test is the only way to verify its presence.

Lead-based paint isn't easy to remove. If your property has lead-based paint, hire a licensed contractor to analyze any concerns about lead in your rental unit. Unfortunately, removing lead can be quite expensive. Often, the best solution is to manage the lead in place rather than remove it, because the removal processes can release large amounts of lead dust.

TIP

If you have any concerns about lead hazards, review the extensive resources available from the U.S. Environmental Protection Agency (EPA) and the National Lead Information Center (NLIC) by visiting www.epa.gov/lead or by calling 800-424-LEAD (800-424-5323).

Most rental property owners use a lead-based paint disclosure form (see Figure 10-1) to ensure that they've complied with the Residential Lead-Based Paint Hazard Reduction Act of 1992. (See the nearby sidebar for more info.) You can grab one from www.wiley.com/go/propertymanagementkitfd4e, print it from www.epa.gov/lead/protect-your-family-lead-your-home-english, or contact the NLIC at 800-424-5323 for a copy. You're required by law to give a

lead-based paint disclosure form like the one in Figure 10-1 to any tenants or prospects if your property was built before January 1, 1978.

Disclosure of Information on Lead-Based Paint and/or Lead-Based Paint Hazards

Lead Warning Statement
Housing built before 1978 may contain lead-based paint. Lead from paint, paint chips, and dust can pose health hazards if not managed properly. Lead exposure is especially harmful to young children and pregnant women. Before renting pre-1978 housing, lessors must disclose the presence of known lead-based paint and/or lead-based paint hazards in the dwelling. Lessees must also receive a federally approved pamphlet on lead poisoning prevention.

Lessor's Disclosure

(a) Presence of lead-based paint and/or lead-based paint hazards (check (i) or (ii) below):

(i) _____ Known lead-based paint and/or lead-based paint hazards are present in the housing (explain).

_____

_____

(ii) _____ Lessor has no knowledge of lead-based paint and/or lead-based paint hazards in the housing.

(b) Records and reports available to the lessor (check (i) or (ii) below):

(i) _____ Lessor has provided the lessee with all available records and reports pertaining to lead-based paint and/or lead-based paint hazards in the housing (list documents below).

_____

_____

(ii) _____ Lessor has no reports or records pertaining to lead-based paint and/or lead-based paint hazards in the housing.

Lessee's Acknowledgment (initial)

(c) _____ Lessee has received copies of all information listed above.

(d) _____ Lessee has received the pamphlet *Protect Your Family from Lead in Your Home.*

Agent's Acknowledgment (initial)

(e) _____ Agent has informed the lessor of the lessor's obligations under 42 U.S.C. 4852(d) and is aware of his/her responsibility to ensure compliance.

Certification of Accuracy

The following parties have reviewed the information above and certify, to the best of their knowledge, that the information they have provided is true and accurate.

Lessor	Date	Lessor	Date
Lessee	Date	Lessee	Date
Agent	Date	Agent	Date

FIGURE 10-1: A lead-based paint disclosure form.

Courtesy of U.S. Environmental Protection Agency

Be sure that you comply with the federal law, and keep a copy of the disclosure form that is signed and dated by the tenants. You must keep this written record of compliance with the disclosure requirements on hand and readily available for review for a minimum of three years in case of an investigation or audit. You need to make the required disclosure only once, even if a tenant renews an existing lease.

WARNING

Rental property owners or managers who fail to follow the federal regulations for lead-based paint risk significant fines. To enforce these regulations, the U.S. Department of Housing and Urban Development (HUD) and the EPA are working together to investigate complaints from prospective tenants and/or current tenants who believe that they may have been exposed to lead-based paint. If a tenant doesn't receive the required EPA or approved state information pamphlet or the disclosure statement, the owner or property manager may be subject to one or more of the following penalties:

- A notice of noncompliance
- A civil monetary penalty of up to $16,000 per violation for willful and continuing noncompliance
- An order to pay the injured tenant up to three times their actual damages
- A criminal fine of up to $16,000 per violation

WARNING

Recently, the EPA and HUD began aggressively enforcing these regulations and levied significant, well-publicized fines against rental property owners and managers who didn't comply with the law. Government testers have been known to pose as prospective tenants, and federal agents have reviewed leasing and maintenance records seeking evidence that property owners or managers knew (or should have known) about the existence of lead-based paint hazards on their property. This area is *not* one in which you want to tempt fate. Make sure to comply with this law, and keep the required documentation on file in an easily retrievable location for at least three years.

Asbestos

Asbestos has received a lot of media coverage over the past 40 years. You may remember the federal government's concerns about asbestos in schools and the major efforts to remove asbestos-containing materials from those facilities.

Asbestos is a mineral fiber that historically was added to a variety of products to strengthen them and to provide heat insulation and fire resistance. In most products, asbestos is blended with a binding material, so as long as it remains intact, fibers aren't released into the air, and no health risk occurs. Asbestos fibers are microscopic and can be positively identified only with a special type of microscope. Products containing asbestos usually aren't labeled.

PAINTING A CLEARER PICTURE OF LEAD-BASED PAINTS

The federal Residential Lead-Based Paint Hazard Reduction Act of 1992 covers all dwellings built before 1978 and requires rental housing owners or their property managers to notify tenants that the property may have lead-based paint. Testing for lead-based paint or removal isn't currently required under federal law. You must disclose any known presence of lead-based paint or hazards, however, and provide all tenants copies of any available records or reports pertaining to the presence of lead-based paint and/or hazards.

In addition to all housing constructed after January 1, 1978, some limited rental property exemptions from federal lead-based paint disclosure regulations exist. Exempt properties include the following:

- Housing for the elderly or persons with disabilities (unless any child under 6 is living there or is expected to live there)
- Short-term vacation rentals of 100 days or fewer
- The rental of an individual bedroom or similar room in a residential home
- Certain zero-bedroom units within university or college housing, such as dormitory housing or rentals in sorority or fraternity houses
- Zero-bedroom units such as studios, lofts, and efficiencies
- Housing that has been inspected and certified as lead-free by a state-accredited lead inspector (meaning the absence of lead-based paint, not just encapsulated)

Be sure to contact the EPA or your state health and environmental agency for specific information. If you're advised that your property is exempt, be sure to receive written verification before ceasing to follow the federal requirements.

In pre-1978 properties, lead-based paint is usually found on the following surfaces:

- Doors, doorjambs and frames, railings, and banisters
- Exterior painted surfaces
- Interior trim
- Porches and fences
- Windows, windowsills, and horizontal painted surfaces

In 2011, the EPA began enforcing the Renovation, Repair and Painting (RRP) Rule, which requires contractors who conduct renovation work in residential buildings built before 1978 to be lead-safe certified firms and to follow specific work practices to prevent lead-dust contamination. The program aims to reduce the amount of lead dust created during renovation, repair, and painting of rental units and common areas; it affects renovation contractors, maintenance workers in the rental housing industry, and painters and employees of other specialty trades. These workers must attend EPA-approved courses taught by a government-approved trainer.

Some of the requirements outlined in the RRP Rule include distributing information to building occupants to notify them of the work being conducted, obtaining written certification from the adult occupant that the information has been received, posting signs defining the work area, isolating the work area by closing windows and doors, and covering ducts or other openings that can't be sealed with plastic sheeting. The specific lead-dust reduction practices also include covering the floor with plastic or similar material, negatively pressurizing the work space, storing daily waste under containment that prevents the release of dust, disposing of the waste in a sealed bag approved by the EPA, and placing all waste in a lined container and disposing of it at an EPA-approved site. You can find further information concerning lead-safe work practices at `www.epa.gov/sites/production/files/documents/steps.pdf`.

Note: The RRP Rule typically doesn't apply to minor maintenance or repair activities (such as patching holes) where less than 6 square feet of lead-based paint is disturbed in a room per 30-day period or where less than 20 square feet of lead-based paint is disturbed on the entire exterior area of the structure, but this exception doesn't include window replacement, demolition, or prohibited practices regardless of square footage disturbed.

Asbestos was commonly used until 1981. At the height of its use, more than 3,000 products were estimated to contain asbestos. Today, up to 1 percent of asbestos is legal to use in products, many of which are used in rental properties. These products include acoustic ceilings, vinyl flooring and tile backings, flooring *mastic* (a type of adhesive), building insulation, exterior siding, wall and ceiling panels, carpet padding, roofing materials, pipe and duct insulation, caulking, patching and spackling compounds, cement pipe, and furnaces.

WARNING

Don't assume that a property built or remodeled after 1981 doesn't contain asbestos products.

The concern in most rental properties is that asbestos-containing materials may be disturbed, causing them to release microscopic fibers, which can be inhaled. Many older apartments have popcorn or acoustic ceilings containing asbestos, which can be disturbed by installing a ceiling light or fan. The asbestos fibers

don't self-destruct but remain in the air for a long time, increasing the risk of disease. Some asbestos materials are friable, which means that they crumble into small particles or fibers. Asbestos-containing materials can also crumble easily if mishandled. Even if the material is intact, asbestos can be released into the air if the material is sawed, scraped, sanded into a powder, or subjected to some other mechanical processes.

A common cause of asbestos release is inappropriate or unsafe handling of asbestos-containing materials during remodeling or renovation. If you plan to do any renovations that may disturb asbestos or plan to demolish your building, federal law requires you to do a comprehensive survey before the work begins. Any asbestos found during the survey must be handled appropriately. To be valid, the survey must be conducted by trained asbestos personnel.

Check with your local and state officials for any disclosure requirements they may require. Some jurisdictions insist that asbestos materials be disclosed to tenants, along with a warning not to disturb them.

TIP

According to the American Lung Association, if you have asbestos-containing substances in your rental property, you should do the following things:

- **If the substance is in good condition, and the asbestos won't be disturbed, leave it alone.** Be sure to warn the tenants not to disturb these materials, and have them notify you immediately if these materials are damaged in any way.
- **If the material is damaged and can release fibers into the air, have it repaired or removed.** Always seek the advice of a professional environmental firm to evaluate and recommend the best course of action concerning asbestos.

Repair usually involves either sealing or covering asbestos material. Sealing is also commonly referred to as *encapsulation* and involves coating materials so that the asbestos can't be released. Encapsulation is effective only for undamaged asbestos-containing material. If materials are soft, crumbly, or otherwise damaged, sealing isn't appropriate, and the substances should be removed by a qualified professional.

Removing asbestos-containing materials is an expensive and hazardous process, to be completed only by trained personnel using special tools and techniques, and should be a last resort. You should hire a licensed contractor who specializes in removing asbestos-containing materials, because improper removal can increase the health risks to the workers, yourself, and your future tenants.

WARNING

Unauthorized removal of asbestos can be illegal. Punishment can include hundreds of thousands of dollars in fines or a prison term.

Asbestos is dangerous if it's disturbed or in poor condition. Don't attempt to test for asbestos on your own. Hire a professional environmental testing firm, because the act of breaking open potentially asbestos-containing material to obtain test samples may release asbestos into the air and create a very dangerous situation.

Radon

Radon, a radioactive gas, is a known cancer-causing agent that the EPA cites as a leading cause of lung cancer in the United States. Found in soil and rock in all parts of the country, radon is formed as a byproduct of the natural decay of the radioactive materials radium and uranium. Radon gas is invisible and has no odor or taste. Its presence in the interior of buildings has been found to cause lung cancer. Most radon found in buildings poses no direct threat to human life, however, because the range of concentration is generally below the minimum safe level.

Although no federal requirements exist regarding disclosure or even testing for radon gas, radon is a potentially serious health issue and one that's receiving more attention. Be aware of radon levels in your rental units; check with local authorities for more information about the prevalence of radon and appropriate precautions to take to avoid radon exposure.

THE LOWDOWN ON ASBESTOS

The U.S. Occupational Safety and Health Administration (OSHA) has developed regulations that apply to any building constructed before 1981. These buildings are presumed to have asbestos unless the owner tests the property and verifies that asbestos or asbestos-containing materials aren't present.

Exposure to asbestos can lead to increased risk of lung cancer, mesothelioma (a cancer of the lining of the chest and the abdominal cavity), and asbestosis (a condition in which the lungs become scarred with fibrous tissue).

No known safe exposure level to asbestos exists. But when the asbestos is intact and can't become airborne, exposure to it isn't a problem. Smokers who inhale exposed asbestos fibers have a greater risk of developing lung cancer than nonsmokers do. Although most people who get asbestosis have usually been exposed to high levels of asbestos for a long time, even a short but significant exposure can cause harm. The symptoms of asbestos-related diseases usually don't appear until about 20 to 30 years after first exposure.

Many states have laws concerning asbestos. Thirty-seven states require disclosure during a real estate sales transaction, and four states (Colorado, Florida, Illinois, and Maine) that require a property owner or manager to provide tenants a disclosure.

Check with your local authorities for any specific disclosure requirements, and always test if you discover that radon levels are high in your area. See www.epa.gov/sites/production/files/2016-02/documents/2013_consumers_guide_to_radon_reduction.pdf for more information.

WARNING

Although radon may be found in all types of homes and buildings throughout the United States, it's more likely to occur in the lower levels of tightly sealed, energy-efficient buildings, in which insulation limits the flow of air from the inside to the outside and ventilation is poor. For a radon zone map of the continental United States, go to https://gispub.epa.gov/radon.

Testing for radon

The only way to know whether your property has radon at unhealthy levels is to conduct short-term and/or long-term radon testing. Fortunately, radon tests are inexpensive and easy to use. The quickest way to test for radon is a short-term test, which remains in your home anywhere from 2 to 90 days, depending on the device. Long-term tests remain in your home for more than 90 days. Because radon levels tend to vary from day to day, season to season, and even year to year. If your tenants are concerned and cooperative, a long-term test is more likely to tell you your rental unit's year-round average radon level than a short-term test will.

REMEMBER

You have two choices when testing for radon:

- **Do it yourself.** Do-it-yourself radon test kits are available in hardware stores, and some laboratories provide kits through mail order. Make sure to get one that meets EPA standards or your state's requirements; the test kit usually says so on the package. A simple, short-term test kit costs about $20 and up (or about $60 and up for a long-term kit) and includes the cost of having a laboratory analyze the test. You can get a discounted test kit from the National Safety Council's Radon Hotline by calling 800-767-7236 (1-800-SOSRADON).
- **Hire a professional.** For information on the detection and removal of radon, you can call the EPA National Radon Hotline at 800-767-7236 or visit the EPA website at www.epa.gov/radon. This website has contact information for state agencies that regulate radon, as well as information on finding a qualified radon reduction provider.

If your tests reveal radon in one particular unit of an apartment building, have all the other units tested immediately, and notify all tenants promptly. Even if your radon test shows low radon levels in one unit, other parts of the building may have high levels.

Repairing a radon problem

Fixing a radon problem usually involves making repairs to the building. Therefore, as the building owner, you are responsible for having this work done. If your property has high radon levels, you can take steps to see that the problem is fixed by installing equipment (such as fans, blowers, and ducts) to reduce radon gas levels. The EPA estimates that radon reduction costs $800 to $2,500 for a single-family home, with an average cost of $1,200. For a larger rental property, the costs depend on the size and other characteristics of the building.

TIP

Radon reduction work generally requires a trained professional. To find out which radon reduction system is right for a building and how much those repairs will cost, consult a professional radon contractor. The EPA and many states have programs set up to train or certify radon professionals. Look online for your state radon office, which can provide a list of people who have completed state or federal programs. It can also provide a list of EPA-approved radon mitigators (reduction specialists) in your state.

Sexual offenders

All 50 states have a version of Megan's Law. This legislation requires certain convicted sexual offenders to register with local law enforcement, which maintains a database on the whereabouts of registered sex offenders and often makes this information available to the public.

Megan's Law is named after 7-year-old Megan Nicole Kanka of Hamilton Township, New Jersey, who was raped and murdered in the summer of 1994 by a convicted child molester who was living in her neighborhood without her parents' knowledge. Fewer than 60 days after Megan's abduction, New Jersey passed the law, which required making information about the presence of convicted sex offenders in local neighborhoods available to the public.

In 1996, a federal version of this crime prevention law was passed, but states aren't very consistent in their efforts to maintain this database and make it available. In 2006, a new federal law known as the Sex Offender Registration and Notification Act (SORNA) provided a new comprehensive set of minimum standards for sex-offender registration and notification in the United States.

SORNA provides a comprehensive set of minimum standards for sex-offender registration and notification in the United States. SORNA aims to close potential gaps and loopholes that existed under prior law and generally strengthens the nationwide network of sex-offender registration and notification programs. Additionally, SORNA does the following, which I quote directly from the website:

- Extends the jurisdictions in which registration is required to include federally recognized Indian tribes, in addition to states, the District of Columbia and the principal U.S. territories.
- Incorporates a more comprehensive group of sex offenders and sex offenses for which registration is required.
- Requires sex offenders to register and keep their registration current in each jurisdiction where they live, work or go to school.
- Requires sex offenders to provide more extensive registration information.
- Requires sex offenders to make periodic in-person appearances to verify and update their registration information.
- Expands the information available to the public regarding registered sex offenders.
- Makes changes in the required minimum duration of registration for sex offenders.

Many states require property owners or managers to provide a disclosure statement to each tenant advising her of the availability of the Megan's Law database. Whether you're required by state law to give your tenant a Megan's Law disclosure, if you're ever asked by a prospective renter about Megan's Law, be sure to refer her to local law-enforcement authorities and make a written and dated note of the conversation for your files. For specific information on the requirements of Megan's Law in your state, call your local law-enforcement agency, contact the Parents for Megan's Law (PFML) hotline at 888-ASK-PFML (888-275-7365).

IN THIS CHAPTER

- Recognizing the value of proper residential tenant screening and written criteria for your process
- Confirming your applicants' information
- Informing applicants of the outcome
- Knowing the laws surrounding fair housing

Chapter 11

Eenie, Meenie, Miney, Mo: Selecting Your Tenants

When you own residential rental property, one of your most important tasks is screening and selecting tenants. Because the process of screening tenants is time-consuming, you need to have a system in place for doing it efficiently.

Basically, for tenant selection and screening, you develop and use objective, written tenant selection criteria; consistently screen all applicants against these minimum criteria; and select a qualified tenant based on your review.

Even after you've been managing rental properties for many years, you still won't be able to just look at a rental application and know whether the applicant is qualified. But with a system, tenant screening really isn't that difficult; it requires assertiveness, diligence, and patience. You have to check the prospect's references, credit history, income sources or assets, stability of income, and rental history. And you can't cut corners. Selecting a bad tenant is much worse than having a vacant rental unit. So choose your tenants wisely and profit in the long run.

Another critical part of choosing your tenants is making sure that you handle the selection process consistently and without bias, abiding by all fair-housing regulations. This concept can be a murky issue, but it's an important one you need to pay attention to, no matter what your situation, so that you're not slapped with a discrimination lawsuit. The guidance I provide in this chapter helps you navigate these unfamiliar waters successfully.

Understanding the Importance of Screening

If you're like many rental property owners, you may be thinking, "Screening? Isn't that just a waste of time? After all, I trust my gut instinct when I meet people. I know which ones are good and which ones are trouble." Although verifying all the information on a prospective tenant's rental application does take time, it's time well spent. Relying on your instincts is inaccurate, arbitrary, and illegal.

To increase your chances of finding a stable, long-term tenant and avoiding charges of discrimination, your tenant selection criteria and screening process must be clear, systematic, and objective. Put this process in writing to ensure that you apply it consistently and fairly to *all* applicants.

REMEMBER

Establishing solid tenant selection criteria and performing a thorough tenant screening process doesn't guarantee a good tenant, but it does significantly improve your odds of finding one.

WARNING

Setting up a systematic screening process is particularly critical if you own a single rental or a small, multiunit rental property. *Professional tenants* (people who go from property to property damaging the units and/or not paying rent) are experienced and shrewd. They know that large, professionally managed rental properties have detailed and thorough screening procedures that attempt to verify every single item on their rental applications. If certain items don't check out, the professional property manager doesn't just trust her feelings on the prospective tenant. Professional tenants know that small rental property owners are easier targets because the novice owner is more likely to bend or ignore the rules than the professional.

Sometimes, the mere mention of the tenant screening process is enough to make the prospect fidget and shift into the classic "I'm just looking" mode. Don't rush a prospect or allow one to hurry you through the tenant screening and selection process. Hold your needs in check. If the property is sitting empty with a mortgage payment due, and you haven't had any takers, you feel anxious when a prospect

surfaces. You may be inclined to accept any applicant, but don't do it. Take a breath and remember that you developed the minimum screening criteria; now you must follow them. The wrong decision can be financially devastating, particularly if you have only a couple of rental units with monthly debt payments.

Establishing Tenant Selection Criteria

Tenant selection criteria are written standards that you use to evaluate each prospect's qualifications as a tenant. Determine your exact minimum qualifications, and adhere to them. Your written criteria can't be discriminatory, meaning they can't be based on an applicant's race, religion, and other personal characteristics that federal, state, or local fair-housing laws ban you from considering in your rental decisions. (I explain how to avoid complaints in the section "Avoiding Housing Discrimination Complaints" later in the chapter.)

These criteria help you treat all applicants fairly to avoid claims of discrimination. Written guidelines are also useful as an objective evaluation technique. Following guidelines minimizes the chance that you will be swayed by a charming prospect or a convincing explanation and find yourself lowering your standards and allowing a not-so-desirable tenant to occupy your valuable rental property.

To avoid potential liability for discrimination, you must apply the same criteria consistently with all prospects.

The following sections break down the importance of tenant selection criteria and show how you can develop your own.

Why having criteria is important

Giving all prospective tenants an overview of your rental screening procedure and requirements up front lets them know exactly what you're looking for in a qualified rental applicant. Because these criteria are the minimum standards you accept, prospects know in advance why their application may be rejected.

REMEMBER

Developing your own tenant selection criteria has several benefits:

- **Rental applicants know that you're aware of and in compliance with all fair-housing laws.** You want to make sure your tenants know that you'll evaluate them objectively and fairly, and without regard to race, religion, and other personal characteristics the fair-housing laws ban you from considering in your rental decisions. Be sure that you promote equal opportunities in housing.

- **Rental applicants understand that rental activity and preparation for it are dynamic processes.** Certain units may not be available even within the same day for legitimate business reasons. Outlining this policy and maintaining good records can minimize accusations of discrimination. For example, where you showed a particular rental unit to an applicant without children, but you did not show that same rental unit to an applicant with children.
- **Rental applicants are aware that you abide by the reasonable occupancy limits suggested by most federal and state standards while being conscious of the unit's limitations.** With the high cost of housing in many areas, some tenants want a smaller rental unit. You need to make sure that your property can handle the intended number of occupants while complying with standards.
- **Rental applicants know what to expect from your process of evaluating applications.** They know that you thoroughly verify the information on all applications, that the process takes one or two days after all information has been received, and that you charge an application fee to cover your costs for the screening process.
- **Rental applicants realize that you evaluate everyone applying for your unit consistently and fairly.** They can review your requirements and evaluate their own qualifications to see whether applying is even worth their time and (if required) application fee.

REMEMBER

More than 90 percent of your applicants are going to be good tenants who pay their rent on time, take good care of their homes, and treat you and their neighbors with respect. You just need to carefully guard against those few bad apples, so don't hesitate to deny prospects who don't meet your standards.

How to create your criteria

To establish your tenant selection criteria, review what you're looking for in a tenant. Your notion of the ideal tenant may differ from someone else's, but here are five important traits to look for:

- Someone who'll be financially responsible and always pay rent on time
- Someone who'll respect and treat the property as though it were their own
- Someone who'll be a good neighbor and not cause problems
- Someone who'll be stable and likely to renew the lease
- Someone who'll leave the premises in a condition the same as or better than they found it

TIP

To get the best results in selecting your tenants and ensure that your rental prospects understand your tenant selection criteria, develop a *statement of rental policy*, which is a formal written statement explaining your screening criteria. Be prepared to defend the reasons for each requirement.

Go to `www.wiley.com/go/propertymanagementkitfd4e` to access a sample statement of rental policy. Your policy standards may be more or less stringent, depending on your rental market and experience, but no matter what, you need to be sure that your standards comply with all state and local laws. Because residential landlord–tenant laws are changing constantly, especially since the pandemic, I strongly advise asking a local attorney who specializes in landlord–tenant law to review your statement of rental policy in advance.

Give your statement of rental policy to every applicant over the age of 18 (as well as emancipated minors) along with the rental application. If you have a multiunit property with an office, post the policy where all applicants can see it. If you don't have an office, insert the policy into an acrylic or similar holder and place it in clear view on the rental unit's kitchen counter or another area where all prospects can see it as they walk through.

TIP

You aren't required to provide your rental prospects copies of your tenant selection criteria, but doing so is a good practice. Although you must offer all prospects rental applications and process each one you receive, you can benefit when prospects make their own decisions not to apply for your rental based on the criteria you've set up. The key is to follow these criteria without exception and have the information available if you're challenged.

Some rental property owners feel more comfortable discussing the tenant selection criteria right from the first rental inquiry call (which I cover in Chapter 9), whereas others wait to distribute copies only to those people who submit an application. You need to decide which policy works best for you and then apply it consistently.

WARNING

Always be very thorough when you perform tenant screening, and use the same process with all applicants. Suppose that you have a policy of discussing your standards with some tenants on the phone but with others only when they meet you to view the property. In that case, you run the risk of being charged with illegal discrimination if you vary your screening process and/or deviate from your written standards for certain applicants. Many legally acceptable reasons to deny a rental application exist, but be sure that your requirements are easy to understand and that you follow them consistently.

The fact that you carefully prescreen all prospects is a positive factor not only for you, but also for your rental applicants, your current tenants, and your neighbors.

In fact, you have a responsibility to your current tenants to weed out the unqualified prospects who have a track record of disrupting the neighbors everywhere they go. Good rental prospects appreciate the fact that their neighbors had to meet your high standards too.

REMEMBER

Doing the right thing is the first step in avoiding litigation, but documenting every step of the way is necessary so that you have written evidence to help defend yourself if litigation can't be avoided.

Verifying Rental Applications

Bad tenants don't walk around with the word *deadbeat* printed on their foreheads. The tenant screening process requires you to be a detective, and all good detectives verify each fact and take thorough notes. You want to ensure that the prospect meets your minimum standards, as outlined in your statement of rental policy (see "How to create your criteria" earlier in this chapter). The following sections explain what info from the rental application you need to confirm before allowing a tenant to move in.

I recommend that you use a rental application verification form, like the one available at `www.wiley.com/go/propertymanagementkitfd4e`, to collect and review the necessary information that allows you to properly evaluate an applicant's qualifications.

REMEMBER

Keep copies of all rental applications, the corresponding rental application verification forms, credit reports, and all other documentation for both accepted *and* rejected applicants for at least four years. That way, if anyone ever claims that you discriminated against them, your best defense will be your own records, which clearly indicate that you had legal rental criteria and applied them consistently.

Confirming identity

The first step you should take in verifying a rental application is personally meeting each prospective adult tenant if you can. Require each prospect to show you a current, government-issued photo ID so you can confirm that each applicant is providing the correct name and current address. (***Note:*** Government-issued photo IDs can include reliable identification from other countries.) Advise your applicant that if you approve their application, you'll need a photocopy of their ID to keep in their tenant file. Initial the rental application to record that you did indeed verify this information.

Inquire about any discrepancies between the application and the ID. Even if the explanation seems to be reasonable, be sure to write down the new information. Maybe an old address appears on the photo ID, which you can check out further through a credit reporting agency.

TIP

Having a photocopy of the ID for each adult tenant can be very important if a dispute concerning the tenant's identity arises in the future. In these situations, you need to be able to clearly show that you positively identified the tenant upon move-in. You could face a possible issue regarding timing, however, because someone may argue that you denied an application based on their appearance on their ID, attached to the application. Thus, it's wise to make copies after you approve the application, such as when your new tenant takes possession of the rental unit.

TIP

It's increasingly common for prospective tenants from outside your area to apply electronically. In such cases, require the application to be notarized so you have more assurance that applicants are who they say they are.

Going over occupancy guidelines

Take a look at the rental application information provided by the prospective tenant concerning the number of people planning to occupy your property to ensure that the anticipated use is within your established occupancy guidelines.

One of a property manager's major concerns is excessive wear and tear on the rental unit. Recognize, however, that it's illegal to discriminate on the basis of "familial status" and that occupancy limits may be deemed discriminatory to the extent they have the effect of excluding families with children. Clearly, the greater the number of occupants in a unit, the greater the possibility for wear and tear. Unfortunately, questions about occupancy have no simple answers. The key to avoiding liability is ensuring that whatever occupancy limits you apply are based on objective factors reflecting how the number of occupants affects the physical designs and systems of the building, and they apply to all persons, not just children. Larger households have a tendency to include children; therefore, fair-housing agencies are interested in minimum occupancy standards set by landlords. U.S. Department of Housing and Urban Development (HUD) guidelines state that property managers can likely limit occupancy to two people per bedroom. You must follow state and local restrictions as well. In California, for example, the state Department of Fair Employment and Housing has formulated the 2 + 1 minimum occupancy standard guideline, which states that a property manager must allow at least two people per bedroom, plus an additional occupant for the unit. In other words, three people may occupy a one-bedroom unit, five people may occupy a two-bedroom unit, and so on. These guidelines aren't safe harbors, however, because the agency may expect a higher limit for unusually large units.

REMEMBER

Contact your local or state housing agency for information on its occupancy regulations, and remember that you must always apply the most generous occupancy standard.

In addition to occupancy standards, you have to consider maximum occupancy limits. These restrictions are usually set by state and local health and safety boards or building codes based on the square footage or size of the unit and its number of bedrooms and bathrooms. The maximum occupancy permitted under these codes is often as high as seven people in a one-bedroom unit, but try to keep the occupancy of your unit closer to the minimum than the maximum.

TIP

Unless you have a more generous state or local requirement, I recommend using the 2 + 1 minimum occupancy standard guideline. Although federal and many state and local occupancy standards allow a more restrictive policy, the burden of proof is on the property owner. If you feel that you have a legitimate basis — meaning a supportable, nondiscriminatory business reason — for having a more restrictive occupancy standard, hire a consultant to make an independent evaluation and recommendation. If you're ever challenged, you'll want to be able to show that the occupancy standard was established by a third party using objective, nondiscriminatory criteria.

WARNING

Pregnancy is often included in family-status protection. Don't deny a household based on the projected number of occupants when a child is born in the future. It's also wise to address in your policy the issue of a violation of occupancy standards through the addition of any minor. Otherwise, your standards will become meaningless. Consider having a rule that allows the occupants to stay until the end of their lease or a certain number of months, whichever is longer.

Investigating rental history

You need to confirm all applicants' rental history. To do so, contact their current landlords, and go through the questions on the rental history portion of the rental application verification form. When you first contact the current landlord, listen carefully to their initial reaction, and let them tell you about the applicant if they decide to do so.

Asking for references from two previous landlords on all applicants is a good practice. Some applicants may provide letters of reference or even copies of their credit reports. This behavior often occurs in many competitive rental markets, where only the prepared tenants have a chance to get a quality property. Although the more information you have, the better the decision you can usually make, carefully evaluate the authenticity of any documents your prospects provide. Accept these papers, but always perform your complete tenant screening process to verify all information independently.

Current or previous landlords may not be entirely forthcoming with answers to many of your questions. Most likely, they're concerned that they'll have some liability if they provide any negative or subjective information. If the information you receive from the current landlord about your applicant is primarily negative, you may not need to check with any previous landlords. Be wary, however. The current landlord may not be entirely honest; they may be upset with the tenant for leaving their property, or they may not say anything bad about a problem tenant so that they can get the tenant out of their property and into yours.

TIP

When a current or previous landlord isn't overly cooperative, try to gain their confidence by providing some information about yourself and your rental property. If you're still unable to build rapport, try to get them to at least answer the most important questions objectively — and preferably in writing. You can offer to send (by fax or email) a list of short questions that landlords can choose to answer or not. Ask questions like these:

- Did the tenant pay their rent on time? If not, how many times were they late?
- Were there noise complaints or any other issues that disrupted other tenants or neighbors?
- Why is the tenant moving?
- Does there appear to be excessive wear and tear or damage?

WARNING

The old standby question "Would you rent to them again?" is now considered to be subjective and therefore possibly discriminatory. You're better off not asking it.

TIP

Another useful screening tool is to ask each prospective tenant to provide copies of their water and utility bills for the past year. This practice verifies previous addresses and gives you an idea whether the applicant pays bills on time. (A rental prospect who can't pay utility bills in a timely manner is very likely to have trouble paying your rent.) You may also want to inquire with local law enforcement to see whether records show any complaints at a tenant's previous address.

Validating income sources

Although credit reporting agencies may provide information on your applicant's employment or other sources of income, they typically don't have all the information you need to properly evaluate this extremely important qualification criterion.

Independently verify the information and phone number the applicant puts on their application if you have any doubts about their authenticity. You may have reason for concern if an employer is a major corporation and the telephone isn't

answered in a typical and customary business manner, for example. You also need to be careful that you confirm the sensitive questions about compensation and stability of employment only with an appropriate employer representative.

TIP

Occasionally, you may find that an employer doesn't verify any information over the phone, so be prepared to send letters via email or fax requesting the pertinent information. If the employer will respond only by mail, be sure to include a self-addressed, stamped envelope, and tell your rental prospect that you may have a delay in providing the results of your tenant screening process.

Your applicant should provide proof of employment or other sources of income. This proof may be in the form of recent pay stubs, bank account statements, and other proof of income or assets. No matter how strong the information is or how authentic it looks, verify it directly with the employer or the other source of income. These days, very realistic but phony documents can be fabricated fairly easily with technology that is widely available.

REMEMBER

Always require written verification of all sources of income that an applicant uses to meet your income qualification requirements. If you can't verify the income, you don't have to include it in your calculations to determine whether the applicant meets your minimum income requirements. Keep the following points in mind as you verify income:

- **For an applicant who relies on sales, commission income, or bonuses, review at least six consecutive months of pay stubs.**

  If the applicant works in a seasonal business, a full 12 months or more would be required. The policy, of course, is to require all applicants with any income other than salary to provide copies of their signed tax returns for the past two years. Although you must be careful to determine that the document is authentic, I have yet to find a rental prospect who overstates annual income on a tax return.

- **Pay close attention to applicants who seem to be overqualified or overly eager to be approved and take possession of your rental unit.** Remember the old saying, "If it sounds too good to be true, it probably is." This adage definitely applies in the world of rental property, so keep it in mind at all times.

- **Be particularly careful of applicants who seem to have plenty of cash to pay your security deposit and first month's rent but don't have verifiable sources of income that seem consistent with their spending patterns.** The applicant may be involved in illegal activity, and you may need to evict them later at considerable expense and loss of income. Rental property owners can even lose their properties under certain circumstances if they fail to take action to eliminate a source of illegal activity on their property.

Several states and local jurisdictions have laws prohibiting a rental property owner from denying an applicant because they receive public assistance. At least 14 states (CA, DE, DC, ME, MA, MN, NJ, NY, ND, OK, OR, UT, VT, WI) have gone further by including source of income as a state-protected class, which means you can't require the applicant to be employed — simply to have legal and verifiable income or financial resources to meet your stated requirements. Source of income may also be a protected class under local fair-housing law.

WARNING

Traditionally, the source-of-income protection was to prevent discrimination against people who receive governmental assistance, but it's been expanded to include limitations on landlords who want to offer favorable terms to certain people based on their employment.

If you're in an area where source of income is a protected class, you may find that you're violating fair-housing laws if your policies favor employees of certain companies or specific types of employment. (Some property owners offer discounts to teachers, police officers, and firefighters, for example.) Also, you may find that some screening companies give extra points for length of employment. That practice would be a problem in a state that provides source-of-income protection.

Finally, be aware that some states include government subsidy payments in source-of-income protection. HUD Housing Choice Vouchers (commonly and incorrectly referred to as Section 8), issued through state and local housing authorities, would qualify. In those states, all landlords are required to be open to renting to people with government vouchers that pay for part of the rent.

Reviewing credit history

You can and should check out an applicant's credit history by obtaining a *credit report.* This document shows all current and previous credit cards and loans, with rating information on the timeliness of payments when due, as well as all public-record entries such as bankruptcy and judgment. Through a credit report, you can figure out whether an applicant has been late or delinquent in paying their rent or other living expenses.

What to look for in a credit history

TIP

Following is a list of what to consider when reviewing a credit history:

- **A pattern of financial responsibility:** You want your prospective tenant to have a history of prudent or conservative spending. Avoid applicants who seem to be using excessive credit and living beyond their means. If they move

into your property and experience even a temporary loss of income due to illness or a job situation, you may be the one with an unexpected income loss as a result.

- **An accurate address:** You want to be able to verify previous living situations, so carefully compare the addresses contained on the credit report with the information provided on the rental application. Under the federal Fair Credit Reporting Act (FCRA), if you're notified by your consumer credit report provider of an address discrepancy, ask the rental prospect for an explanation. Maybe they were temporarily staying with a family member or simply forgot about one of their previous residences. As the prospective landlord, you need to have reasonable procedures to investigate and form a reasonable belief of the applicant's identity. Be sure to contact previous landlords and ask all the questions on the rental application verification form to make sure that the applicant didn't neglect to tell you about that residence for a reason.
- **An accurate Social Security number:** You want to make sure that you're reviewing the credit report of your actual applicant. People with poor credit or tenant histories have been known to steal the identities of other people, particularly their own children, by using their Social Security numbers. One way to prevent this problem is to make sure that your credit reporting service provides a Social Security number search. (Check out the nearby sidebar for more info.)

WARNING

You must keep information obtained in credit reports strictly confidential and can't give it to any third parties. With the growing problem of identity theft, you need to keep all tenant and prospect personal information in a secure file. In some states, an applicant is entitled to a copy of their credit report upon request, and federal law allows anyone who is denied credit on the basis of a credit report to obtain a free copy of the report.

Where to get your applicant's credit history

A credit report contains valuable information that can assist you in determining whether your rental applicant meets your resident selection criteria. But the federal FCRA has very complicated restrictions on the proper use of this sensitive information. To get a consumer credit history, you need to contact a tenant screening service in your area. You can find many companies that work specifically with the rental housing industry by going through your local National Apartment Association (NAA) affiliate or your local Institute of Real Estate Management (IREM) chapter.

SHOULD YOU ASK FOR A SOCIAL SECURITY NUMBER?

Problem: Some rental property owners or managers require applicants to provide a Social Security number. Such a policy may risk a fair-housing complaint, however, because only U.S. citizens or immigrants authorized to work in the United States can obtain a Social Security number. Many people (like those with student visas) simply don't qualify for one. Also, with the increased concern about identity theft and privacy rights, some of your rental prospects who have an Social Security number may not feel comfortable providing it on your rental application.

Solution: An alternative can be an Individual Taxpayer Identification Number, which is issued upon request by the Internal Revenue Service to anyone who earns income while living in the United States. Credit reporting bureaus can use the taxpayer ID number the same way they use the Social Security number to provide information on your applicant's credit history.

Problem: People aren't required to have Social Security or taxpayer ID numbers, so failing to screen without one could have a discriminatory effect based on national origin. Therefore, you should consider having a method of screening based on all other factors besides these numbers.

Solution: Some screening companies indicate that such screening isn't possible, but it's really a matter of software. The ultimate result is that the applicant may not qualify — not because you didn't screen based on a lack of a Social Security or taxpayer ID number, but because of a lack of available information when you screened without them.

Problem: Some credit reporting bureaus provide rental owners and property managers eviction information that may be inaccurate or misleading. The credit bureaus' databases often include information about every eviction filed against an applicant, regardless of whether the matter was ultimately resolved in the tenant's favor. Being confronted with an erroneous eviction filing can be very disconcerting for falsely accused rental applicants.

Solution: If your applicant has an eviction filing on their credit report, you need to inquire further and see whether it was filed in error, dismissed, or resolved in their favor. In the meantime, know that most credit reporting bureaus are making efforts to ensure that their databases reflect court judgments, not just filings.

The info you'll receive from the tenant screening service is based on the databases and records of the three dominant consumer reporting agencies:

- **Equifax:** www.equifax.com
- **Experian:** www.experian.com
- **TransUnion:** www.transunion.com

With the wide choice of tenant screening services available, you may have a hard time deciding exactly what you need. I recommend that you use a service that offers the following:

- A retail or consumer credit report
- An eviction search or tenant history
- An automated cross-check of addresses
- A Social Security number or Individual Taxpayer Identification Number search
- An employment or income and landlord reference verification
- A criminal-records search (not mandatory, but highly advisable if your tenant screening service can search records for the area within the United States where your prospect previously resided)

WARNING

Be advised that even if you use a tenant screening service to conduct all or part of the screening process, you're still responsible for any legal deficiencies. Make sure that the company you hire follows the written criteria you've approved. (Check out the section "Establishing Tenant Selection Criteria" earlier in this chapter.)

TIP

The Internet is quickly changing the tenant screening procedures for many rental property owners. Consumer credit reports, tenant history, and criminal-records search services are now available from your computer in a matter of seconds. This instant access often allows you to approve your applicant in minutes or hours, which can be a strong competitive advantage. Many tenant screening firms are entering this electronic market, and all offer impressive services designed to save you time and help you fill your vacancies faster. Using technology can improve the efficiency of your information collection for tenant screening and provide you more details to make a better decision. But don't rely strictly on computers. Continue to contact past landlords, verify the applicant's income and employment, and consider your own dealings with the applicant. Rental property ownership and management is still — and always will be — a people business.

What charges are involved

The cost of a tenant screening credit report varies widely. On an individual basis, tenant screening can run between $20 and $50. When you start adding an investigative or criminal-records search in multiple areas, this expense can go much higher. Establish the specific level of screening services you want and then be consistent to avoid discrimination claims.

If you join a tenant screening service, you can get discounts of 50 percent or more on each credit report. Some companies offer memberships with minimum monthly fees, but only owners of multiple rental properties who run at least one tenant screening per month really benefit from membership. If you run fewer than a dozen tenant screenings annually, you'll usually find it cheaper to pay a higher fee per report.

If you own only a few rental units, you may find that joining your local NAA affiliate is a better deal than paying $20 to $50 per tenant screening. You get easy access to reasonably priced tenant screening services and consumer credit reports through your local NAA affiliate. Also, you can take advantage of the NAA's education opportunities, publications, and forms. With ever-changing landlord–tenant laws, having current forms is extremely important.

Go to `www.wiley.com/go/propertymanagementkitfd4e` to find a complete list of NAA affiliates and information about the organization's educational programs and professional designations.

WARNING

Charging an applicant for tenant screening or a consumer credit report if you don't run one is illegal. If you receive a large number of rental applications, review them in the order in which you receive them, one at a time. If the first applicant fails to qualify, begin processing the next application. Check your state laws to make sure that you don't exceed any legal maximum charges, and be sure to return any unused credit-check fees to those applicants for whom you don't run a credit check. Try to keep your tenant screening fees as low as possible, and set them based on the fees paid to a tenant screening company, the value of your time or salary expended, and any indirect expenses (such as phone calls) for checking rental history. Always be aware of your state or local laws regarding tenant charges.

Checking criminal history

Rental property owners' liability is increasing all the time. One area of particular concern is criminal acts committed by tenants. In most states, rental property owners have no legal requirement or obligation to ask about or investigate the criminal backgrounds of applicants or current tenants.

Since the events of September 11, 2001, federal, state, and local law enforcement have made great efforts to standardize reporting of criminal activity. Criminal-record databases are becoming much more reliable, but in some limited parts of the country, only a county-level criminal-records search is possible. Additionally, many states hold only felony-conviction records; they don't list convictions for misdemeanors involving violence, sexual misconduct, or dishonesty.

REMEMBER

Federal fair-housing laws don't expressly ban discrimination on the basis of criminal history. But state and local laws might. Moreover, studies and statistics document the widespread racial and ethnic differences in the U.S. criminal justice system. In addition, across the nation, African Americans and Hispanics are arrested, convicted, and incarcerated at disproportionately higher rates than Caucasians with respect to their share of the general population. As a result, HUD has made it clear that even though criminal history isn't a protected class under federal law, excluding prospects based on criminal history may be discriminatory because it has the *effect of* excluding minorities that are statistically more likely to have a criminal record.

That doesn't mean you can't take criminal history into account when screening prospects. But it does mean that you must follow certain restrictions to ensure that your criteria are fair and based on actual and objective dangers posed to others based on their criminal record.

The first point is that when reviewing an applicant's criminal history, consider convictions only, not simply arrests. Because the U.S. legal system is based on the idea that someone is innocent until proved guilty, you should deny only those applicants who have criminal convictions. There are loopholes or exceptions, so it is not really that simple. The federal Fair Housing Amendments Act considers past drug addiction to be a disability, for example, and drug-use felony convictions alone may not be sufficient grounds to deny an applicant. (Fortunately, current drug use or the sale, manufacturing, or distribution of illegal substances isn't protected under federal fair-housing laws.) Some states also limit landlords' ability to deny housing to registered sex offenders, whereas HUD doesn't. Properties subject to federal subsidized housing programs may have a defense against state discrimination claims based on the HUD program requirements for criminal screening. Always seek legal advice if you have any questions about the findings of a criminal-records search.

With many tenants moving from area to area, performing a thorough criminal-records search in every location where the applicant may have lived can be cost-prohibitive. Some property owners request a criminal-records search only if the applicant indicates that they've been convicted of (or pled guilty or no contest to) a felony or a misdemeanor involving violence, sexual misconduct, or dishonesty. Be diligent in looking for any indications that may provide a clue to possible criminal activity, such as gaps in rental history while the prospect was incarcerated.

REMEMBER

Consistency is the key to all tenant screening activity, including your efforts to minimize the chances of renting to someone who may present a direct threat to the health or safety of others. You need to establish a policy of inquiring about past criminal history or running a criminal-records search on *all* rental applicants to ensure that you apply your screening process uniformly.

Talking with all personal references

Although you may expect that a prospect's personal references will make only glowing comments about how lucky you'd be to have the applicant as your new tenant, investing the time to call those references is important for several reasons. You may find someone who tells you that the applicant is their best friend, for example, but never loans them money or a car. Also, if you call the given references and find that the contacts are bogus, you can use this information as part of your overall screening of the applicant.

TIP

Consider having a clause in your rental criteria and application stating that the misrepresentation of screening information is a basis for denial. You may even want to incorporate such a clause into your lease as a basis for eviction. The enforceability of such a statement, of course, depends on state eviction laws and the judges who interpret them.

Dealing with cosigners

If your rental prospect doesn't meet the criteria outlined in your statement of rental policy, you may consider approving their application if they provide a cosigner. The cosigner needs to sign a guarantee of lease or rental agreement form, and they must be financially qualified and screened; otherwise, the guarantee is worthless.

Signing a separate guarantee of lease or rental agreement is better than asking the cosigner to simply sign the rental contract, because doing so prevents any confusion about whether the cosigner lives in the unit if you need to regain physical possession with an eviction action.

You can access a sample guarantee of lease or rental agreement by going to `www.wiley.com/go/propertymanagementkitfd4e`.

Require your cosigner to complete a rental application, pay the application fee, and go through a verification of income screening. This process is similar to your procedure for the applicant, except that you don't need to verify rental or criminal history. Keep in mind that the cosigner won't be living at the unit and thus will have their own housing costs. To ensure that the cosigner can meet all their own

obligations and cover your tenant's rent in case of a default, you need to account for their cost of housing before comparing it with your income requirements.

If the proposed cosigner has gross monthly income of $4,000 with a $1,000 mortgage payment, for example, they have adjusted gross income of $3,000. Assuming that your income standard requires the tenant to earn three times the monthly rent (and assuming that the cosigner meets all your other screening criteria), this person can be the guarantor for your prospect as long as the rent doesn't exceed $1,000 per month. If you don't know the cosigner's housing costs, you could establish a higher standard for cosigners, such as four or five times the rent or whatever you think provides you reasonable security for payment.

An application approval could be conditioned upon the payment of an increased amount of security deposit instead of, or in addition to, a cosigner. Be sure to check applicable deposit laws to ensure that the amount doesn't exceed the maximum allowed.

WARNING

Although a cosigner can be very important and can give you extra resources in the event of a rent default by your tenant, out-of-state cosigners aren't as valuable as in-state ones. The challenge you face is that in many states, you're required to file a claim against the cosigner in the county in which they reside. You'll likely have to obtain an attorney who can file the lawsuit and appear in court in that court's jurisdiction. Enforcing the rental contract guarantee against an out-of-state party can be very difficult, if not financially unfeasible.

Making your final decision

Selecting your tenant is one of the most important decisions you'll make as a rental property owner, because choosing your tenant has a significant positive or negative effect on your success. Ideally, you've established written tenant screening criteria and a system for evaluating the qualifications of your rental applicants; if you haven't, reread the previous sections of this chapter.

Although you need to follow fair-housing guidelines carefully, never compromise your tenant screening criteria or allow yourself to be intimidated into accepting an unqualified applicant as long as the reason you consider the applicant is based on legitimate, objective criteria and not a person's race, religion, disability, and so on. HUD and state fair-housing agencies have consistently ruled that rejecting an applicant who doesn't meet your objective tenant screening criteria isn't discrimination, even if the applicant belongs to a legally protected class.

Some fair-housing advocates recommend that you have a policy of considering the applications in the order in which you receive them and accepting the first prospective tenant who meets your rental criteria. I feel that as long as you're

consistent in your tenant selection methods, you should select the tenant who's best qualified. The key is selecting a policy and following it consistently with all applicants. Thus, selecting a qualified White applicant over a Black one who presents their application with better and stronger qualification criteria because the former applied first would be discrimination if your usual policy is to choose the most-qualified prospective rental applicant.

But you need to be prepared for claims by other qualified applicants who may feel that they weren't treated properly. Clearly document your business reasons for selecting a certain applicant. Legitimate business reasons can include higher income, longer job stability with consistent and/or reliable income, more assets, much better references, superior credit report, and willingness to sign a longer-term lease.

TIP

If you use the first-qualified-applicant method, be sure to note on the application the date and time it was both submitted and approved, and indicate that from that point, the rental unit is no longer available. This information can be helpful if qualified applicants from protected classes claim that you discriminated by accepting an application submitted after theirs or allege that you refused to show available units by claiming that they were rented. If you ever face a discrimination claim, you will be required to produce all paperwork pertaining to your applicant screening, and you need to make sure that your notes and records are easy to follow. The less interpretation or explanation your cryptic notes require, the better, as an agency or an opposing attorney for a claimant looking into whether you discriminated may not be giving you the benefit of the doubt. Protect yourself by carefully and clearly documenting the steps you took with each application, and include complete, detailed notes about all information you received and who provided the information.

WARNING

Some tenant screening services offer *risk scoring* of applicants based on scoring models that they claim are designed to objectively predict an applicant's likelihood of fulfilling lease obligations. If you use one of these services, make sure that you can meet the disclosure requirements of the FCRA as well as any state requirements, such as the Investigative Consumer Reporting Agency Act in California, which has unique provisions requiring a consent disclosure check box on all applications, allowing applicants to request a copy of the investigative report. Use only a tenant screening service that's willing to provide your denied applicants a written, detailed notice of denial to rent that meets all FCRA requirements. If a credit score is used in setting material terms of credit or in taking adverse action, the FCRA requires you or your tenant screening service to disclose the tenant's credit score, the range of possible credit scores under the model used, the provider and the date of the credit score, and the factors that adversely affect the credit score ranked in order of importance.

As many states often follow the lead of California when it comes to tenants' rights, you may find that it is easier to provide the applicant a copy of their credit report and criminal-background check along with any other information you receive from a consumer reporting agency. Current law in most states is that the applicant is entitled to receive this information but must contact the consumer reporting agency directly. Even in California, current law is that you need to provide a copy of the report only if the applicant checks the appropriate box on the application. But many credit reporting agencies recommend that landlords simply provide copies to all applicants, as the penalties for failing to provide an applicant a copy of the report upon request are very onerous. Attorneys who file lawsuits over such minor issues will demand legal fees that are often much higher than the civil or statutory penalty. My advice is to go with the intent of the laws and automatically give every applicant a copy of the investigative consumer report you obtained in your screening process.

Notifying the Applicant of Your Decision

Rental property owners are legally allowed to choose among rental applicants as long as their decisions comply with all fair-housing laws and are based on legitimate business criteria. (See the preceding section to get an idea of what counts as a legitimate business reason.) Whether you accept or reject an applicant, be sure to notify them promptly after you make your decision.

TIP

If you approve the applicant, contact them to arrange for a meeting and a walk-through of the unit before to the move-in date. Don't notify the other qualified applicants that you've rented the property until the new tenant has signed all legal documents and you've collected all funds due upon move-in.

One of the most difficult tasks you face as a rental property owner is informing an applicant that you've denied their application. You obviously want to avoid an argument about the rejection, but even more important, you want to avoid a fair-housing complaint based on the applicant's misunderstanding of the reasons for the denial.

If you deny an applicant, notify them in writing. If you notify the denied applicant by phone only, you may have difficulty giving all the required details and disclosures. A written notice of denial to rent averts a situation in which the applicant may unintentionally (or sometimes intentionally) form the opinion that you're denying their application in a discriminatory manner and file a complaint with HUD or a state or local fair-housing agency.

Using a notice of denial to rent form to tell the applicant in writing of your decision is an excellent idea. This form helps you document the various and valid legal

reasons for your rejection of the applicant. This simple checklist also allows you to provide the applicant the information required by the FCRA and any state laws. If you reject an applicant based on their credit report, the FCRA requires you to notify the applicant of their rights. You should provide the denied applicant a letter containing the mandatory disclosures so that you have proof you complied with the law. You must also provide this information even if you approved the applicant but require them to pay a higher security deposit, offer only a month-to-month rental agreement, or require a cosigner. (See "Dealing with cosigners" earlier in this chapter for more information.)

You can find a sample notice of denial to rent form at `www.wiley.com/go/propertymanagementkitfd4e`. Whether you use the notice of denial to rent form or prefer to craft your own rejection letter, make sure that the document you send includes the following information:

- The names, addresses, and phone numbers of all credit reporting agencies that provided you information.
- A notice that the credit reporting agency provides information only about credit history, takes no part in the decision process, and can't give reasons for the rejection.
- A notice that the applicant has the right to obtain a free copy of the credit report from the credit agency if they request it within 60 days of your rejection.
- A notice informing the applicant that they have the right to dispute the accuracy of the information on the report. They can also demand a reinvestigation or provide the credit reporting agency a statement describing their position.
- A notice that if information was received from a person or company other than a credit reporting agency, the applicant has the right to make a written request within 60 days for a disclosure of the nature of this information.

REMEMBER

Keep a copy of all rejection letters for at least four years.

Avoiding Housing Discrimination Complaints

If you're in the rental housing business for long, you'll hear about a shocking settlement or award against a rental property owner for violating a fair-housing law. Many of these awards or settlements can exceed $100,000, and some have exceeded $1 million.

You may even have read about certain fair-housing cases and thought that the defendants deserved to lose and that a discrimination case will never happen to you. That's probably true if you're an educated owner who knows and abides by all federal, state, and local fair-housing laws. The problem arises when property owners are unaware that their policies or practices are considered to be discriminatory. You may think that you're being a courteous and caring landlord, for example, by showing only rental applicants with children your available units located on the ground floor. But not giving applicants without children the same treatment you give others can be a form of discrimination, even if that wasn't your intent.

Federal and state laws prohibit discrimination against certain protected classes in rental housing. These laws affect your tenant screening and selection process, and I cover the issues surrounding these laws in the following sections.

The ins and outs of fair housing

Discrimination is a major issue for rental property owners, and it has serious legal consequences for the uninformed. If you don't know the law, you may be guilty of various forms of discrimination and not even realize it until you've been charged.

The U.S. legal system acknowledges two types of fair-housing discrimination:

- **Treating members of protected classes differently from the way you treat others who aren't members of that protected class:** Suppose that you have two applicants with similar financial histories, tenant histories, and other screening criteria, but you charge one applicant who's a member of a certain protected class a larger security deposit. You may be subject to a fair-housing discrimination inquiry or complaint on the basis of different treatment.
- **Treating all prospects equally but creating disparate impact because of an individual's minority status:** If your occupancy standard policy is too restrictive, you may be accused of familial status discrimination based on disparate impact, which occurs when a policy is the same for all applicants but has a much different effect on certain applicants and essentially creates an additional barrier to rental housing for families. Although you've set an occupancy standard policy that's applied equally to all tenants, your policy may be deemed to discourage applicants with children. This scenario is an example of possible disparate impact.

The federal Fair Housing Act prohibits discrimination on the basis of race, color, national origin or ancestry, religion or creed, sex (including gender, pregnancy, sexual orientation, and gender identity), familial status, and physical or mental

handicap. Several states and many major cities have laws to protect people affected by other issues that aren't specifically protected under federal fair-housing laws. Examples include age; marital status; occupation; educational or student status; medical status; HIV/AIDS status; sexual orientation; source of income; experience of domestic violence, stalking, or sexual assault; military/veteran status; political affiliation; genetic information; personal appearance; and physical size.

Although several states do not have laws prohibiting discrimination against unmarried couples who live together, many prohibit any distinction in access to housing based on marital status. The majority of states have very broad fair-housing laws forbidding all arbitrary discrimination on the basis of a person's characteristics or traits. Such laws can prohibit the use of appearance as a basis for housing decisions. If an applicant has tattoos or piercings, for example, or wears clothing that could be construed to be typical of a gang member, you can't safely use that information as a reason for denial of their application. Always be sure to fully understand the fair-housing requirements and limitations that apply to your rental property.

REMEMBER

When renting your property, keep some of these specific pointers in mind:

- **Be careful not to inadvertently favor one sex as renters.** Some rental property owners may have the perception that male tenants aren't as clean or quiet as female tenants, for example. Conversely, some owners with rental properties in rough areas may believe that male tenants are less susceptible to being victims of crime. As a result, these owners may attempt to restrict female tenants to upper-level rental units. Don't allow any stereotypes or assumptions to enter into your tenant selection criteria. Tenants should be allowed to choose any unit for which they are qualified.
- **Consider adding fair-housing posters in another language if you have a rental unit in an area where a significant portion of the local population doesn't speak English.** HUD offers free fair-housing posters in many languages, so you can easily find one that's applicable to your locale. You can access fair-housing posters by going to `www.wiley.com/go/propertymanagementkitfd4e`.
- **Pay attention to age-related issues.** Although the Fair Housing Act doesn't specifically state that age is a protected category, many states and localities have laws that directly address the issue of age. Whether someone is old or young, the age isn't the real focus; the applicant's ability to qualify under your rental criteria is. Typically, you can deny rental applicants who are younger than 18 but seeking to be treated as adults unless they are (or were) legally married, an active-duty member of the military, or emancipated by court order. In these cases, you must treat them just like any other adult rental applicants.

REMEMBER

Following are three main exemptions to the federal fair-housing laws:

- An owner-occupied rental property with four or fewer units.
- Single-family housing rented without the use of discriminatory advertising or without using an agent to facilitate or handle leasing.
- Housing reserved exclusively for senior citizens that's intended for and solely occupied by persons 62 or older (which includes spouses and adult children but excludes caregivers and on-site employees), as well as HUD-certified seniors' properties in which 80 percent or more of the households are occupied by at least one person who is 55. In both cases, the exemption is for claims of age or family-status discrimination.

Many states and local governments have passed their own legislation that may apply to your property and affect the aforementioned exemptions. Don't count on an exemption, and be sure to abide by all fair-housing laws that may be applicable to your property, even if you think you're exempt. Abiding by all fair-housing laws eliminates any potential complaints and is simply the right thing to do.

Steering and chilling

Steering means guiding, or attempt to guide, a rental applicant toward living where you think they should live based on race, color, religion, national origin, sex, family status, physical or mental handicap, or other protected class. Steering is an illegal act that deprives people of their right to choose to rent where they want. HUD has clearly indicated that not showing or renting certain units to minorities is one form of steering. Another form of steering, according to HUD, is the "assigning of any person to a particular section or floor of a building" based on any of the protected classes listed previously.

Rental property owners often have only good intentions when they suggest that a rental prospect with children see only rental units near the playground. You may not apply your own preferences, however; you must offer a prospective tenant all available units and let them decide completely on their own. Your failure to offer such an applicant an opportunity to see *all* available rental units is steering — a violation of fair-housing laws.

REMEMBER

Steering can be subtle or direct. Examples of steering include

- Limiting families or people with disabilities to ground-floor units
- Offering families or minorities only units near the playground or by the laundry room or elevator, because noise makes these units less desirable

- Relegating families to certain buildings or sections of a building, or having separate family and adult buildings
- Suggesting buildings, floors, units, or locations where you think prospects will feel "comfortable" based on their race, religion, color, and so on. Example might include assuming Latino prospects will feel comfortable with Latino neighbors, or that families with young children avoid high floors or units near the swimming pool or spa, even if you firmly believe you are only acting in the prospect's best interests.

A similar concept is *chilling*, which is making comments or establishing rules designed to discourage certain applicants from renting. Examples of chilling include

- Pointing out property hazards to applicants with children but not pointing out those hazards to all applicants
- Showing only undesirable units in the hope that the applicant doesn't rent
- Questioning disabled or elderly applicants about their disabilities or whether they can care for themselves or should live alone
- Telling certain applicants something negative about the property that isn't true

WARNING

Be very careful not to make any suggestions or comments that can be misinterpreted as steering or chilling. Give all applicants the same information about the area, the property, and the full range of units available so that they can decide for themselves which units they want to see.

Children

Federal and state legislation has virtually eliminated adult-only housing except for certain HUD-certified seniors' properties. I always recommend that rental property owners openly accept renters with children. Families tend to be more stable, and they're looking for a safe, crime-free, and drug-free environment in which to raise their children. Along with responsible pet owners, who also have difficulty finding suitable rental properties, families with children can be excellent, long-term renters, and typically, the longer your tenants stay, the better your cash flow.

WARNING

Some owners are concerned about renting to families with children because the property has hazards that may be dangerous for children. The property may not have any safe areas for children to play, for example. Although you may truly have only the children's best interests in mind, the parents have the right to decide whether the property is safe for their children. You do need to take steps to make your property as reasonably safe as possible, of course, by posting speed limit signs in your driveway or including restrictions on recreational use of common areas, such walkways, driveways, and parking areas.

REMEMBER

Be careful not to discourage applicants with policies and guidelines on the conduct of children unless these rules are safety-related. Don't institute a policy against children riding bicycles on the property, for example; instead, have a policy that says *no one* is allowed to ride bicycles on the property. (This way, the policy doesn't discriminate against children; it's uniformly applied to all.) Avoid using any words that are obviously directed at children, such as *minors, toys, tricycles, diapers, playing,* and the like. Use terms such as *all residents and guests, personal property, waterproof garments for controlling incontinence,* and *recreational use.* Make sure that all your policies are age-neutral except for certain health and safety issues. Some state laws, for example, require rental owners to have policies that to use swimming pools or spas, children under 14 must be accompanied by an adult.

Charging applicants with children higher rents or higher security deposits than applicants without children is illegal, as is offering different rental terms, such as shorter leases, fewer unit amenities, or different payment options. The property's facilities must also be fully available for all tenants, regardless of age, unless a clear safety issue is involved.

Reasonable accommodations

The federal Fair Housing Act requires property owners to make reasonable accommodations for tenants with physical or mental handicaps (called *disabilities* in many state laws; the terms are interchangeable) so that they're able to enjoy the property (including public and common areas) on an equal basis with tenants who don't have disabilities. A *disability* is defined as a physical or mental impairment that substantially limits one or more major life activities. Undue cost that's out of proportion to the benefits of the person that requests them would be deemed unreasonable, especially where the person's need can be met just as effectively with less costly alternatives. Accommodations would also be unreasonable if they require you to provide a service or item that would fundamentally change the nature of your business, such as providing transportation and assistance with off-site shopping to disabled tenants if you don't offer that kind of service to any of your tenants. Requests for reasonable accommodations are valid if they're made verbally, but you should ask the tenant to make the request in writing. If that's not feasible, you can put the request in writing and have the tenant verify the information and then sign or initial it.

The fair-housing regulations state:

> "It shall be unlawful for any person to refuse to make reasonable accommodations in rules, policies, practices, or services, when such accommodations may be necessary to afford a handicapped person equal opportunity to use and enjoy a dwelling unit, including public and common areas."

REMEMBER

You're required to make reasonable adjustments to your rules, procedures, or services upon request. You must refrain from assuming that someone has a disability or inquiring whether someone does. You must consider each request for a reasonable accommodation seriously.

Examples of reasonable accommodations that you may be required to offer include

- Providing a parking space that's wider and closer to the rental unit of a tenant with mobility impairments
- Arranging to read all management communications to a tenant with poor vision
- Allowing a tenant who receives income from a government agency to pay on a biweekly rather than monthly basis or allowing a change in the usual rent due date

Reasonable modifications

Federal law requires rental property owners to allow a tenant with disabilities the right to modify their living space at their own expense (except in project-based, HUD-subsidized housing, in which the landlord may be obligated to pay for reasonable modifications; see Chapter 24 for more on HUD-subsidized housing). The modifications can be to the extent necessary to allow the resident an equal opportunity to use and enjoy the premises. If the modifications will make the unit unacceptable to the next tenant, the landlord may require the current tenant to return the rental unit to its original condition upon vacating the property. The owner can also require the tenant to pay the funds necessary to perform the needed restoration into an interest-bearing escrow account.

Reasonable modifications that tenants may request to make at their expense include

- Ramps at the rental unit entry
- Lower light switches and the removal of doors or widening of doorways to allow for wheelchair access
- Grab bars or call buttons in bathrooms
- Lower kitchen cabinets and the removal of base cabinet doors
- Service animals allowed in the pool area, even though you don't permit other animals there (although arguably not *in* the pool because of health issues that make that accommodation unreasonable under the circumstances)
- Roll-in showers

REMEMBER

The modifications must be reasonable. You can require the tenant to obtain your written approval and ensure that the modification will be made in a workmanlike manner, including any necessary government approvals or permits. You can also require the tenant to provide verification that they fit the definition of a disabled person and that a disability-related need exists for the modification if the disability and need aren't apparent. But you can't ask about the nature or extent of the specific disability that necessitates these changes.

Companion or service animals

If you have a no-pets policy, keep in mind that fair-housing law requires rental property owners to make "necessary and reasonable accommodation." One specific common accommodation is not having any limitations or not discouraging occupancy by tenants who need a support animal. Companion or service animals that assist tenants with daily life activities aren't pets; they're exempt animals and must be allowed in all rental properties, regardless of any no-pet policies. Per the U.S. Department of Justice's revised Americans with Disabilities Act (ADA) regulations, service animals are defined as dogs that are individually trained to do work or perform tasks for people with a disability, including a physical, sensory, psychiatric, intellectual, or other mental disability.

WARNING

Under the ADA, miniature horses may also be considered to be service animals if they're individually trained to do work or perform tasks for people with disabilities and meet certain requirements.

Fair-housing laws also prohibit you from requiring an animal or pet deposit or increasing a tenant's security deposit because they have a support animal. Further, you can't make any rules limiting the types or breeds of animals (allowing only German shepherds, for example) or imposing an unreasonable size or weight restriction. You can establish reasonable rules of conduct for the animals, however, and should note that the tenant is still responsible for any damages done by the animal.

Some tenants seek the accommodation of a companion or emotional support animal (ESA) based on their need for comfort or companionship, and federal law requires property owners and managers to grant the request if the tenant's claim is true and reasonable. These assistance animals can be any type if the ESA alleviates the owner's symptoms, and they are not required to be trained to perform tasks for a person who suffers emotional disabilities. The best method of determining reasonability is to obtain verification pursuant to the HUD and the U.S. Department of Justice (DOJ) guidelines that were recently updated in early 2020. They provide that written verification can be submitted by a reliable third party, a peer support group, a nonmedical service agency, or the tenant's licensed health-care provider.

REMEMBER

To avoid claims of discrimination or favoritism, set a consistent policy of requesting official verification before allowing any companion animals. As in all potential housing discrimination issues, failing to consider a tenant request can lead to serious legal consequences.

TIP

Determining what's reasonable in the eyes of fair-housing officials is always murky, so look at each request individually to make a proper decision. Most households only request one animal, for example, but you may face situations in which more than one animal may be reasonable. If you're uncertain whether a particular request is reasonable, seek direction from local fair-housing agencies or legal counsel whenever possible. Ask these representatives to provide you their written opinion or send you a letter outlining their verbal directive; be sure to keep copies of this documentation in your rental files.

Americans with Disabilities Act

The ADA has limited requirements for many rental property owners because it applies only to the public areas, not the private or common areas of residential properties. Under the ADA, all areas of a property to which the public is invited must be accessible by people with disabilities. A rental property with an on-site office (and other public amenities, such as rental unit models) must be accessible to people with disabilities, for example.

WARNING

Note that common-area amenities may become subject to the ADA by virtue of the landlord's inviting the public to use them. Examples include a clubhouse used as a polling place, a pool used for public swimming lessons, and so on. Thus, it is advisable to determine which amenities will be limited to use by tenants and guests and which (if any) will be open to the public.

The removal of existing physical barriers at the rental property owner's expense is required whenever it's "readily achievable and technically feasible." The ADA also establishes parking requirements if the residential property provides public parking, such as prospective resident spaces.

TIP

Often, you'll be able to restripe your parking areas to provide the required parking, but be careful, because many local municipalities have specific parking requirements for multiunit rental properties. Before you make any changes, make sure that your new parking layout meets the minimum parking requirements for your property zoning. Check with your local building and code enforcement office for details.

The ADA applies to all residential properties, even those built before the passage of the law. Owners of residential properties occupied before March 13, 1991, are required to remove barriers to accessibility, but they aren't required to make

changes that may cause undue hardship. Owners of properties occupied after March 13, 1991, must comply with the ADA and the federal Fair Housing Act too. Professional complainants seek out ADA violations in both residential and commercial rental properties, so know what you're responsible for accommodating.

TIP

If you have a rental property with public areas, you may want to consider using the services of a qualified contractor, architect, or engineer with specific ADA knowledge to conduct a physical assessment and evaluation of your property and make compliance recommendations. Also consult your rental housing legal adviser if you have any questions about ADA compliance. For more information on ADA requirements for residential rental property owners, visit www.ada.gov.

REMEMBER

If your prospective tenant has a physical or mental disability that substantially limits one or more major life activities, or if they have a record of having such a disability, you must allow them to make reasonable modifications to your property, including common areas, if necessary for use of the rental housing. Conditions qualifying as physical or mental disabilities are evolving, but this term can include mobility, hearing, and visual impairments; chronic mental illness; chronic alcoholism; AIDS or AIDS-related illness; and mental retardation. Many state and local laws are expanding the definition of their protected categories, so be sure to check with legal counsel if you have any questions regarding the rights of your tenants under federal or state fair-housing laws.

Sexual harassment

In the world of property management, sexual harassment occurs when you refuse to rent to a person who rejects your sexual advances or when you make life difficult for or harass a tenant who resists your unwanted advances. It can also occur if you or your manager, assistant manager, leasing agent, maintenance, cleaning, landscaping, security, or other personnel make sexually inappropriate and unwelcome jokes, comments, or advances, or they engage in other forms of physical or psychological conduct that would create a "hostile environment" in the eyes of a reasonable person in the victim's situation. Most rental property owners understand the concern and find such behavior to be unconscionable. Yet this problem often arises when owners hire someone to assist them with the leasing, rent collection, or maintenance requirements at their properties. If the vendor or contractor commits sexual harassment, the owner is accountable because the offender is the employee or agent of the owner.

TIP

Make sure that you have a clear written policy against sexual harassment, provide an open-minded procedure for investigating complaints, and conduct thorough and unbiased investigations that lead to quick corrective action if necessary.

3 The Brass Tacks of Managing Rentals

IN THIS PART . . .

Have a good working relationship with tenants.

Help tenants at move-in and move-out.

Increase the rent without losing your tenants.

Retain the good tenants, and deal with the bad ones.

IN THIS CHAPTER

- Agreeing on a move-in date
- Going over your property's house rules
- Noting the condition of the unit before move-in
- Keeping all the paperwork organized
- Making your new tenants feel welcome in their new home

Chapter 12
Moving In the Tenants

After selecting your new tenants, you still have to complete one very important step to ensure that you establish a good landlord–tenant relationship: moving them into their new homes. To guarantee that the tenants' move-in process goes smoothly, you need to hold a tenant orientation and rental property inspection meeting, which allows you to present the rental property and your ownership and management skills in the best possible light. You also need to make sure that your new tenants understand and agree to the policies and rules you've established for the property.

In this chapter, I outline the important steps to start your landlord–tenant relationship off on the right foot, including scheduling the move-in date and the tenant orientation meeting, conducting the preoccupancy inspection and documenting the unit's conditions, providing important policies to tenants in a written format, and using creative ideas to welcome your tenants on move-in day.

REMEMBER

Moving is very stressful for most people, and if your new tenant has a bad move-in experience, this feeling can last for months or even stay on their mind throughout the tenancy. The timing of the orientation is critical. On move-in day, there's a great deal of activity, and your tenant's mind is preoccupied. Their furniture is waiting to be unloaded, helpful friends and relatives are eager to begin their tasks, and the new tenant has difficulty focusing on the details of the lease and the rules of occupancy. Try to schedule the brief orientation meeting at a less

hectic time — usually before move-in day. Although you can't guarantee your new tenant a simple and painless move, you can take steps to ensure that you're organized and ready to handle any complaints or concerns about their new home.

Establishing the Move-In Date

When you inform your prospective tenant that you've approved their rental application, you need to determine a mutually agreeable move-in date. You may have discussed this date during your initial telephone conversation or when you showed the property, but be sure to raise the issue again to guarantee that you're in agreement.

WARNING

After new tenants are approved, some of them suddenly waver on setting the move-in date. They may stall because they're still obligated under a lease or 30-day notice at another rental property and don't want to double-pay. Unless you're willing to suffer rent loss that you can never recover, insist that the tenant begin paying rent to you on the originally scheduled move-in date. The time for your new tenant to negotiate the move-in date was *before* you approved them.

TIP

Tenants often ask to move in the weekend before the start of their lease date to provide adequate time to complete the move and secure willing available help. Owners often allow early occupancy if the unit is ready and may even forgo a day or two of rent as a kindly move-in gesture. This approach can start your new tenant off with a positive feeling, but I caution you to ask your new tenant to provide proof that both utilities and renter's insurance coverage are in place as of the date of physical occupancy.

In some situations, your rental unit may not be available on your mutually agreed move-in date. Perhaps the previous tenants didn't vacate when they said they would, perhaps the unit was in much worse condition than you anticipated, or perhaps you just weren't able to complete the required prep work in time. If the unit won't be available as promised, communicate with your new tenant immediately. Often, a new tenant can adjust their move-in date as long as you give them reasonable notice. If they can't adjust the date, try to work out another arrangement.

WARNING

Sometimes, new tenants ask whether they can move just a few items into the rental unit before your preoccupancy conference. Don't allow it! You create a landlord–tenant relationship simply by letting the tenants have access to the unit without your being present or by allowing them to store even a few items in the unit. Then, if you have to cancel the rental for any reason, you'll need to go through a formal legal eviction that can take several weeks.

Meeting with a Tenant Before Move-In

After you and your tenant decide on a move-in date — but *before* the tenant moves in and takes possession of the unit — you need to meet to deal with some of the technicalities, such as walking through the property, signing paperwork, making copies of the tenant's photo ID for your file, and handing over the keys. The following sections walk you through each step of the move-in process.

Set up a meeting with the tenant on the move-in day or a few days before. At this meeting, you review your property policies and rules, review and sign all the paperwork, collect the move-in funds, conduct a thorough property inspection, and complete an inspection checklist.

TIP

Although the rental property should be in rent-ready condition before you show it to rental prospects, it can get dirty or dusty quickly if there's any delay between showing the property and moving in the new tenants. So before meeting with your tenant prior to move-in, make one last visit to the unit, and go through your rent-ready inspection checklist again to make sure that you don't encounter surprises when move-in day arrives. (See "The inspection checklist" later in the chapter for more info.)

Covering the rules with your new tenant

When you meet with your new tenant, start by giving them a copy of your house rules, which may look something like those in Figure 12-1. (Go to `www.wiley.com/go/propertymanagementkitfd4e` to access the same information in print-ready form.) Give them a chance to read the rules and ask questions, and provide clarification as necessary. Then ask for their signature, which indicates that they have received and understood the rules and agree to abide by those rules.

REMEMBER

The term *rules and regulations* tends to sound rather imposing to most tenants. Some rental housing owners and managers use the term *policies and guidelines*, but I feel that you need to make it very clear that these are legally enforceable rules, not optional guidelines. Your house rules are separate from your rental contract, which is drafted by an attorney using lots of formal and hard-to-understand terminology (aka legalese). The rules you draft should be more informal and conversational in tone than your rental contract. Be sure to use clear language that's neither harsh nor demeaning. Because your house rules are part of your lease, you should have your lawyer give them a quick read. Casual tone and language can put a softer spin on the document but may make the rules more susceptible to misinterpretation and more difficult to enforce, and could even lead to a fair-housing discrimination complaint.

Policies and Rules

We are proud of this property and we hope that your living experience here will be pleasant and comfortable. The support and cooperation of you, as our tenant, is necessary for us to maintain our high standards.

This is your personal copy of our Policies and Rules. Please read it carefully as it is an integral part of your rental agreement. When you sign your rental agreement, you agree to abide by the policies and rules for this rental property, and they are considered legally binding provisions of your rental agreement. If you have any questions, please contact us and we will be glad to help.

This document is an addendum and is part of the Lease or Rental Agreement, dated _____, by and between _____, Owner, and _____ Tenant, for the premises located at: _____.

New policies and rules or amendments to this document may be adopted by Owner upon giving 30 days written notice to tenant.

Guests: Tenant is responsible for their own proper conduct and that of all guests, including the responsibility for understanding and observing all policies and rules.

Noise: Although the Premises are well constructed, they are not completely soundproof and reasonable consideration for neighbors is important. Either inside or outside of the Premises, no tenant or their guest shall use, or allow to be used, any sound-emitting device at a sound level that may annoy, disturb, or otherwise interfere with the rights, comforts, or conveniences of other tenants or neighbors. Particular care must be taken between the hours of 9:00 p.m. and 9:00 a.m.

Parking: No vehicle belonging to a Tenant shall be parked in such a manner as to impede passage in the street or to prevent access to the property. Tenant shall only use assigned and designated parking spaces. Tenant shall ensure that all posted handicap, fire zones, or other no-parking areas remain clear of vehicles at all times. Vehicles parked in unauthorized areas or in another tenant's designated parking space may be towed away at the vehicle owner's expense. Vehicles may not be backed in, and repairs and maintenance of any sort are not allowed on the premises. All vehicles must be currently registered and in operative condition. No trucks, commercial vehicles, recreational vehicles, motorcycles, bicycles, boats, or trailers are allowed anywhere on the Premises without advance written approval of the Owner. All vehicles must be parked properly between the lines of the parking space. Tenant shall ensure that their guests abide by all of these parking policies and rules.

Patios/Balconies and Entry Areas: Patios/balconies and entry areas are restricted to patio-type furniture and are to be kept clean and orderly. No barbecues or similar cooking devices may be used on the Premises without advance written approval. No items may be hung from the Premises at anytime, and all entryways and walkways must be kept free from items that could be a hazard. Owner reserves the right to require that items that detract from the appearance of the Premises be removed immediately upon request. No unauthorized storage is allowed at any time.

Wall Hangings: Pictures may be hung on a thin nail. Mirrors, wall units, hanging wall or light fixtures, etc. need special attention and professional installation. Please contact the Owner for approval in advance as damage to the Premises will be the responsibility of the Tenant.

Trash: Tenant is responsible for keeping the inside and outside of the Premises clean, sanitary, and free from objectionable odors at all times. Tenant shall ensure that all trash, papers, cigarette butts, and similar items are sealed in trash bags and placed in appropriate receptacles. No trash or other materials shall be allowed to accumulate so as to cause a hazard or be in violation of any health, fire, or safety ordinance or regulation.

FIGURE 12-1: A sample first page of policies and rules (also known as house rules).

Courtesy of Robert S. Griswold

Many owners and managers of single-family or small rental properties don't worry about detailed rules and regulations because they think that the rental contract covers it all. But setting up some basic rules that you can easily change through written notice to the tenants is a good idea. This strategy shows that you and your tenants are on the same page and gives you flexibility in managing your property.

REMEMBER

When you establish your house rules and have your new tenant review them, keep these points in mind to reduce the chances of future headaches:

- **Frame your house rules in a positive light.** Review the rules with several of your friends and colleagues to find better ways to say the same thing. Be clear, direct, and firm, yet not condescending. And watch out for the *no index,* which happens when many of your rules are too blunt and negative, such as "No glass in the pool area," "No storage on your balcony," and "No riding bikes on the grounds." Although each of these rules is reasonable and important for the safe, efficient operation of your property, you can say the same thing in a more positive way. Instead of saying, "No riding bikes on the grounds," for example, you can say, "Please walk your bikes in the common area." Or instead of saying, "No glass in the pool area," you can say, "We gladly allow beverages by the pool in unbreakable plastic containers." Phrasing the rules in a positive tone and minimizing the no index makes the rules — and you — seem friendlier to your tenant.
- **Verify that your house rules are reasonable and enforceable.** The rules must not discriminate against any member of a protected class. The term *protected class* refers to the federal laws that protect classes of people against discrimination based on race, color, national origin or ancestry, religion or creed, sex (including gender, pregnancy, sexual orientation, and gender identity), familial status, and physical or mental handicap.
- **Make sure that your house rules avoid any references to children unless those references are related to certain health and safety issues.** You can have a rule that states, "Persons under 14 must be accompanied by an adult while using the spa," for example, because legitimate safety concerns exist regarding unattended preteen children in spas. But a rule that says, "Children aren't allowed to leave bicycles in the common area" is inappropriate, because it singles out children and implies that adults can leave bikes in the common area if they want. A better way to handle this issue is to use wording that isn't age-specific, such as, "No one is allowed to leave bicycles in the common area." This wording clarifies that the rule applies to everyone and doesn't discriminate based on age.
- **Regularly review and modify your house rules based on situations you encounter.** But remember that you're not running a prison camp, and you don't want to alienate a tenant by harassing them with rules or controlling their day-to-day life. Just because one tenant demonstrates poor judgment doesn't necessarily mean that it's time to create a new rule.

TIP

Every time you revise your house rules, put the date on the document so that your tenants will know which rules are the most current. Remind your tenants that these rules supersede any previous versions, and have them sign the document to indicate that they've received the revised house rules and will comply.

AND THEN THERE WAS LIGHT

With the high cost of utilities, you need to be certain that you and your tenants are on the same page regarding who is financially responsible for the rental unit's utility charges. Tenants usually aren't eager to begin paying for utilities, so be sure that your procedures clearly state that your new tenant must immediately contact the utility companies and put the utilities that are their responsibility in their name. Most rental property owners have the utilities revert to their own name when the unit becomes vacant for unit turnover and rental showings. So if your new tenant doesn't change the utility billing information, you may end up paying for some of their utility bills.

One way to make sure that your new tenant handles this matter promptly is to confirm that they've dealt with the utilities before you give them the mailbox key.

An even better way to avoid paying for the tenant's utilities is to provide contact information for all utilities at the tenant orientation meeting and then require your new tenant to contact the utility companies and establish the bills in their name while in your presence. You may also be able to handle the utility issues online, including verification that the tenant has taken responsibility as of the move-in date.

In many states, rental property owners are required to disclose whether tenants are financially responsible for any utility services outside their rental unit. Exterior common-area lighting may be connected to a rental unit, for example, or a common-area natural-gas grill may be connected to a tenant's gas meter. In some states, landlords must give tenants an appropriate rent credit for the common-area utilities they help pay for. Check the laws in your area, and be sure to disclose this kind of information if you're required to do so.

Reviewing and signing documents

Tenants and property owners alike are usually aware of all the legal paperwork involved in renting a home. And although sifting through all that legalese isn't fun for anyone, doing so is important. Property owners and tenants each have specific legal rights and responsibilities that are outlined in these documents, and being aware of what you're agreeing to — and ensuring that your tenants know what they're agreeing to — is crucial.

In the next several sections, I outline the documents you need to go over with your new tenants and have them sign.

Rental contract

Be sure that your tenant understands that when they sign your lease or month-to-month rental agreement, they're entering into a business contract that has significant rights and responsibilities for both parties. Before your tenant signs the rental contract (or any rental contract addenda), review each clause carefully and methodically.

Certain clauses in the rental contract are so important that you should have the tenant initial them to indicate that they've read these points and understand their rights and responsibilities in relation to them. As an example, the tenant should initial the clause concerning the need to obtain their own renter's insurance policy to protect their property and cover them for liability claims. (See Chapter 20 for tips on educating your tenants about renter's insurance.)

WARNING

Never give a tenant the keys to the property before they've signed your required legal documents. Even if the tenant fails to sign the rental contract, an oral landlord–tenant relationship is established when you give them the keys to the unit, and when you rely on oral agreements, you and the tenant are likely to disagree on the terms. Regaining possession of your rental unit can be a long and expensive process, so be sure that every adult occupant signs all necessary documents before you hand over the keys.

TIP

Speaking of keys, have your new tenant initial to indicate that they received X number of keys for the property and that you had the locks rekeyed or changed since the last tenant vacated. It's also advisable to fully explain the charges that your tenant will incur for a lockout or for loss of keys, entry cards, or gate or garage door opener. Your tenant may think that you or someone you pay will be available 24/7 to open the door for them, when the reality is that these problems can be expensive to solve, and the items may be expensive to replace. Explaining the consequences in advance should keep the tenant cautious so that they avoid these challenging situations.

Environmental disclosure forms

If you haven't already done so, be sure to give your new tenant copies of the required legal and environmental disclosure forms, plus the U.S. Environmental Protection Agency pamphlet on lead-based paint hazards, which is also required under federal law for most properties built before 1978. (Turn to Chapter 10 for more info on disclosure of these hazards.)

Mold addendum

Mold is a common term for a variety of fungus types that live virtually everywhere in the environment, both indoors and outdoors. Blaming elevated mold levels for alleged health problems caused by exposure to certain mold spores, which are

often called toxic mold, is a fairly recent phenomenon. Such claims are very controversial, and currently, no federal regulations exist regarding permissible exposure limits or building tolerance standards for mold.

Mold can occur anywhere as long as it can find sufficient humidity or moisture and a food source, such as drywall and other common building materials. You can prevent mold, but doing so requires cooperation between you and your tenants.

Because the tenant has day-to-day control over the rental unit, you can't possibly know about mold problems as soon as they develop or know about all the conditions in the unit that can lead to mold. Emphasize to your tenants the importance of avoiding conditions that increase the chances of mold growth, and instruct them to notify you immediately of any suspected problems such as unexplained moisture or leaks.

To minimize the possibility of mold concerns at your property, give your tenant a mold notification addendum (see Figure 12-2) to educate them on how they can help prevent mold growth through proper lifestyle and housekeeping measures. This addendum indicates that you've inspected the property and deemed it to be free of damp or wet building materials upon tenant move-in. It also verifies that no known issues exist with regard to water intrusion, visible mold, or mildew. Be sure that your tenant reviews the addendum carefully and signs to indicate acknowledgment, and give them a copy of the signed form for their records. To access a sample mold notification addendum from the California Apartment Association, go to `www.wiley.com/go/propertymanagementkitfd4e`.

Smoke alarm agreement

Inform your new tenant of the importance of smoke alarms. You may even want to create a smoke alarm agreement, an example of which you can find at `www.wiley.com/go/propertymanagementkitfd4e`. This document helps you ensure that your tenant fully understands the importance of this vital safety equipment and realizes that they must make sure that the smoke alarms remain in place, operate properly, and have electrical or battery power. Check your state and local fire and building codes to ensure that you're in compliance with the type, number, and location of alarms required by law in each rental unit.

WARNING

Many tragic accidents have occurred in rental properties where fires broke out after tenants removed or disabled the smoke alarms because they were annoyed by false alarms triggered by smoking or cooking. Some tenants fail to test the smoke alarms regularly or replace the batteries as needed. It isn't legally required, realistic, or desirable from the tenant's perspective to have you enter the rental unit for routine testing of the smoke alarm. All tenants need to understand that you can address only conditions that are brought to your attention, so they must be actively involved in ongoing inspections of the rental unit to ensure their own safety.

MOLD NOTIFICATION ADDENDUM

Page _____ of Agreement

This document is an Addendum and is part of the Rental/Lease Agreement dated _____ (Date) between _____ (Name of Owner/Agent) (Owner/Agent) and _____ (List all Residents as listed on the Rental/Lease Agreement) (Resident) for the Premises located at _____ (Street Address), Unit # (if applicable) _____ _____ (City). CA _____ (Zip).

It is our goal to maintain the highest quality living environment for our Residents. The Owner/Agent has inspected the unit prior to lease and knows of no damp or wet building materials and knows of no mold or mildew contamination. Resident is hereby notified that mold, however, can grow if the premises are not properly maintained or ventilated. If moisture is allowed to accumulate in the unit, it can cause mildew and mold to grow. It is important that Residents regularly allow air to circulate in the apartment. It is also important that Residents keep the interior of the unit clean and that they promptly notify the Owner/Agent of any leaks, moisture problems, and/or mold growth.

Resident agrees to maintain the premises in a manner that prevents occurrence of an infestation of mold or mildew in the premises. Resident agrees to uphold this responsibility in part by complying with the following list of responsibilities:

1. Resident agrees to keep the unit free of dirt and debris that can harbor mold.
2. Resident agrees to immediately report to the Owner/Agent any water intrusion, such as plumbing leaks, drips or "sweating" pipes.
3. Resident agrees to notify the Owner/Agent of overflows from bathroom, kitchen, or unit laundry facilities, especially in cases where the overflow may have permeated walls or cabinets.
4. Resident agrees to report to the Owner/Agent any significant mold growth on surfaces inside the premises.
5. Resident agrees to allow the Owner/Agent to enter the unit to inspect and make necessary repairs.
6. Resident agrees to use bathroom fans while showering or bathing and to report to the Owner/Agent any non-working fan.
7. Resident agrees to use exhaust fans whenever cooking, dishwashing, or cleaning.
8. Resident agrees to use all reasonable care to close all windows and other openings in the premises to prevent outdoor water from penetrating into the interior unit.
9. Resident agrees to clean and dry any visible moisture on windows, walls, and other surfaces, including personal property, as soon as reasonably possible. (Note: Mold can grow on damp surfaces within 24 to 48 hours.)
10. Resident agrees to notify the Owner/Agent of any problems with the air conditioning or heating systems that are discovered by the Resident.
11. Resident agrees to indemnify and hold harmless the Owner/Agent from any actions, claims, losses, damages, and expenses, including, but not limited to, attorneys' fees that the Owner/Agent may sustain or incur as a result of the negligence of the Resident or any guest or other person living in, occupying, or using the premises.

The undersigned Resident(s) acknowledge(s) having read and understood the foregoing.

Date	Resident	Date	Resident
Date	Resident	Date	Resident
Date	Owner/Agent		

FIGURE 12-2: A mold notification addendum.

Courtesy of the California Apartment Association

In response to a startling statistic — more than 50 percent of fire deaths in residential rental properties occur in homes that don't have a smoke alarm or in which the smoke alarm isn't working due to dead or missing batteries — fire alarms are now manufactured with disposable sealed, 10-year batteries with an expiration date. A long-life battery, sealed inside an alarm, makes it virtually tamperproof and eliminates the risk associated with disabling the alarm.

Be sure to check the current requirements in your area, as these new smoke alarms are increasingly being required as state laws change. In California since 2014, for example, any battery-powered smoke alarm or combination (smoke and carbon monoxide) alarm approved for sale by the state fire marshal must be powered by a sealed 10-year battery. Retailers must stock only sealed-in, long-life battery smoke alarms, and all new smoke or combination alarms must display the date of manufacture, provide a place on the unit to mark the date of installation, and incorporate a "hush" feature to silence nuisance alarms like those caused by burned toast or shower steam.

Animal agreement

Marketing your rental property to tenants with pets can be very profitable because you usually have lower turnover and higher rents. If your new tenant has pets, you need to have them complete and sign an animal agreement. This document outlines your house rules regarding your tenant's animals. (Go to `www.wiley.com/go/propertymanagementkitfd4e` to access a sample animal agreement.)

REMEMBER

A good animal policy clearly stipulates exactly which animals are acceptable at your rental property. It may just be semantics, but you don't want to get to court and have your tenants argue that the large iguana that damaged your rental unit isn't subject to your rules because it's not their "pet." I recommend broadening your rules from merely "pets" to "animals in general."

TRUE STORY

THE IMPORTANCE OF SMOKE ALARMS

I once managed a great 70-unit apartment building that looked as though it had been pulled straight from a Gene Autry movie set. It had a very Western motif, with wood everywhere — covered wooden walkways, enclosed wooden carports, and wood decks. This property was a termite's dream! But it was also a significant fire risk. That's exactly what one crazed friend of an evicted tenant must have thought when, in the middle of the night, they doused one of the apartments with gasoline and lit a match.

The intense fire spread quickly. Luckily, the on-site manager was walking back to the property and saw the fire soon after it started. They immediately alerted all the tenants in the adjoining units before calling the fire department. It's a good thing that they did. As it turned out, one tenant had taken their smoke alarm down because of false alarms from cooking, and another tenant had taken the batteries out of their smoke alarm just a few days before, when their portable radio needed batteries.

This event will always be a vivid reminder to me that smoke alarms can save lives, but the only way they can do so is if they're maintained properly.

After the initial move-in, tenants may be tempted to take advantage of your policy and bring in additional animals or pets. A tenant may decide that the small poodle you agreed to is lonely and needs the company of a Great Dane in your studio rental unit! Tenants often have heartwarming stories about how they've added new animals to the mix, but you need to retain control of the numbers, types, and sizes of the animals on your property. One way to do so is to meet and photograph each animal so that there's no doubt about what you've approved. Remember that small puppies can grow into large dogs, so make sure that your policies anticipate the animal at its *adult* size. Also, note that smaller isn't always better. Some small breeds are noisier than their larger counterparts. Pets tend to be as responsible as the tenants who care for them, control them, and pick up after them.

WARNING

Don't confuse a tenant requesting your approval of their pet or animal with a service dog or Emotional Support Animal (ESA), which are not considered "pets" or "animals" but are considered tangible, necessary "medical equipment." You cannot have any polices that prohibit service dogs or ESAs.

TIP

Keep current photos of all animals living on your property in the individual files of their owners. This practice may seem to be ridiculous, but no matter how large your security deposit is or how strict your rules are, animals have the potential to cause significant damage. Determining the source of the problem can be difficult if you can't accurately identify the guilty animal and its owner. New services are now available that allow you to use DNA sampling to confirm the culprit, but naturally, you must have preregistered a DNA sample that is on file with the testing and identification services company. Having a photo can also help if the original animal passes away and the replacement animal doesn't meet your limitations.

TRUE STORY

PYTHONS AND PIGLETS AND GOATS, OH MY!

In managing rental properties over the years, I've seen just about every type of pet you can imagine. I once took over management of a small rental property whose owner allowed the tenants to have pets. I wasn't too concerned until it became obvious that the previous management company didn't have any limitations. I soon found out that we had everything from the usual dogs and cats to a large Burmese python and a pot-bellied pig. One tenant even had two goats on their patio. Strictly define exactly which animals are acceptable on your property; otherwise, you may be in for a big surprise.

Collecting the money from your tenant

During your pre-move-in meeting (and before the tenant has the keys to the place), be sure to collect the first month's rent and the security deposit. Payment may be in the form of a cashier's check or a money order, but not a personal check. (After all, you have no way of knowing whether a check will clear.) Be sure to give your tenant a receipt for payment, and also let them know whether your rent collection policy allows them to pay future rent payments with a personal check.

WARNING

Although cash is legal tender, have a firm policy against accepting cash unless doing so is absolutely necessary. Regularly collecting cash for your rents can make you a target of crime. Tenants often move in on the weekends and in the evenings, so you don't want to have cash on your person or in your home until you can get to the bank. If someone assists you in your rent collections, they're also at risk. Further, cash is harder to keep track of, and your assistant may be tempted to skim off some of it for their own needs.

WARNING

Before handing over the keys to your new tenant and allowing them to take possession, you need to insist on having the cash in hand through *good funds* (as opposed to *insufficient funds*, which occurs when a person writes a check and doesn't have the money to cover it in their account). Most owners guarantee the receipt of good funds by requiring cash, a bank cashier's check, or a money order. But many rental property owners aren't aware that both cashier's checks and money orders can be stopped. Financial institutions and convenience stores allow the purchaser to stop payment because these financial instruments can be lost or stolen. Bank cashier's checks and money orders are superior to personal checks because they do represent good funds and won't be returned to you because of a lack of money to cover them.

If, despite my strong advice, your tenant persuades you to accept a personal check, at least don't give them access to the property until you've called and verified with their bank that the check will be honored. Your best bet is to take the check to the tenant's bank and cash it or at least have it certified. If the bank certifies the check, it's guaranteeing that the tenant has sufficient funds available, and the bank will put a hold on the funds. Cashing the check is the only sure way to collect your funds, because a devious tenant can always stop payment on even a certified personal check.

Check scanners are now available from some financial institutions for a fee (or for free to their larger customers). These devices can process personal checks by scanning the microencoding at the bottom of the check and essentially making a bank deposit remotely. You can cut down the processing time of a check and know immediately whether it's good simply by using one of these scanners.

Inspecting the property with your tenant

The number-one source of landlord–tenant disputes is the disposition of the tenant's security deposit. You can avoid many potential problems by following proper procedures before the tenant takes possession of the rental unit. But to do so, you need to walk through the property with your tenant before move-in and go over the following matters.

TIP

To avoid disputes over security deposits, record the rental unit's condition before the tenant moves in, using your smartphone to take photos and/or video. In addition to your inspection checklist (see the next section), you'll have some visual evidence to help refresh the tenant's memory or to show to the judge if the matter ends up in court. If you use a vintage video camera, be sure to get the tenant on video stating the date and time, if they're cooperative. If your tenant isn't present, bring a copy of that day's newspaper, and include it in your recording. With photography, be sure to include a caption or descriptions with all photos, and provide a running, detailed narrative with the recording.

The inspection checklist

Your inspection checklist is just as important as your rental contract. By using an inspection checklist at both move-in and move-out time, you can take care of many problems. The purpose of the inspection isn't to find all the items that you or your maintenance person forgot to check; you should've already looked carefully through the unit to ensure that it meets your high standards. The purpose of the move-in inspection is to clearly demonstrate to the tenant's satisfaction that the unit is in good condition except for any noted items and to establish the baseline condition should any damage be noted when the tenant vacates.

When it's properly completed and signed, an inspection checklist documents the property's condition upon acceptance by and move-in of the tenant, and serves as a baseline for the entire tenancy. If the tenant withholds rent or tries to break the lease by claiming that the unit needs substantial repairs, you can prove the unit's condition upon move-in by referring to the checklist. And when the tenant moves out, you're able to note clearly the items that were damaged or weren't left clean so that you can charge the maximum allowed under your state or local laws before returning the remainder of the security deposit.

Make sure that you do the following things when you have a new tenant sign this form.

PHYSICALLY WALK THROUGH THE RENTAL UNIT WITH YOUR NEW TENANT, AND GUIDE THEM THROUGH THE INSPECTION FORM

Let the tenant tell you the conditions they observe, and make sure that your wording of the noted conditions and comments accurately describes everything in detail.

TIP

If doing this walk-through with your tenant isn't possible, you should complete the move-in/move-out inspection checklist on your own, and ask that all adult occupants review and sign the form as soon as possible upon move-in. Inform the tenant that you'll be glad to deliver their mailbox key when you have the approved form in hand. I never seem to get anything but bills and junk mail myself, but I've learned that the mailbox key is a very useful tool in motivating a tenant to review and approve the inspection checklist promptly.

PRINT LEGIBLY, AND BE AS SPECIFIC AS POSSIBLE WHEN NOTING THE CONDITION OF EACH ITEM

Indicate each item's condition — new, excellent, very good, dirty, scratched, broken, and so on — but also include details, such as writing "The built-in timer doesn't work" rather than "The oven is broken." That way, your tenant understands that the oven does in fact work, and they know that they won't be held responsible for this specific item upon move-out. If you comment only on dirty or damaged items, a court may conclude that you didn't inspect or forgot to record the condition of an item that you're now claiming was damaged by the tenant. You may think everyone knows and agrees that all items without any notation are in okay condition, but the tenant will likely tell the court that the item was at least somewhat dirty or damaged and that you shouldn't be able to collect for it.

REMEMBER

Whenever possible, have the tenant fill out the checklist legibly in their own handwriting. If a dispute arises later that finds its way into small-claims court, the credibility of the form will be stronger if the tenant was the one who completed it.

Your tenant may discover that an item doesn't work after move-in, of course, so you need to be a bit flexible. The oven may have tested in working order, for example, but the first time the tenant uses it, it doesn't heat properly. Or the showerhead may have tested well for temperature and pressure, but both are found to fluctuate when the shower is put to normal use. These items are ones to address quickly.

The rental unit should be in good working condition in all ways except those few noted wear-and-tear issues that you and the tenant agree can be left alone, such as a small stain on the carpet or a slight indentation in the kitchen countertop.

REMEMBER

When used properly, a move-in/move-out inspection checklist not only proves the existence of damage in the rental unit, but also pinpoints when the damage occurred. Don't fall for one of the oldest tenant ploys in the book. Tenants often try to avoid walking the rental unit with you upon move-in because they want to avoid charges for damage that occurs during their actual move-in. Save yourself some trouble: Require your tenant to walk through the rental premises and agree that all items are in clean and undamaged condition *before* they start moving in their boxes and furnishings.

TIP

Always note the conditions of the carpets and floor coverings, which are some of the most common areas of dispute with tenants upon move-out. Although you shouldn't charge tenants for ordinary wear and tear, they should pay for the damage if they destroy the carpet. Indicate the carpet's age and whether it's been professionally cleaned as part of your rental turnover process. If a tenant leaves after only six months and has destroyed the carpet, you can guarantee that they'll remember the carpet as being old, dirty, and threadbare. The tenant's selective memory won't recall that the carpet was actually brand-new, or at least in very good condition, and professionally cleaned upon their move-in.

If you discover any problems during your inspection walk-through, note them on the inspection form, and take steps to have them corrected unless the corrections aren't economically feasible. You may have a hairline crack along the edge of the bathroom countertop, for example. If you determine that refinishing or replacing the countertop would be too costly, just note the condition on the inspection form so that your tenant isn't charged erroneously upon move-out.

BE SURE THAT YOUR INSPECTION CHECKLIST REFLECTS ANY REPAIRS OR IMPROVEMENTS MADE AFTER THE INITIAL WALK-THROUGH INSPECTION

If you and your tenant note on the form that the bathroom door doesn't lock properly, for example, you should have that item repaired, necessitating an update to the inspection form that your tenant must initial.

BE PARTICULARLY CAREFUL TO NOTE ANY AND ALL MILDEW, MOLD, PEST, OR RODENT PROBLEMS

Doing so is important, because these problems are health issues that you must address immediately before the tenant takes possession. There's been a trend toward tenant claims of an uninhabitable rental property or a unit that violates health and safety regulations. These claims often result in requests for rent reduction or even litigation. To prove that you turned over the rental property in good condition, note on your inspection checklist that no indication of any of these issues exists. If problems persist after move-in despite your best efforts, consult the appropriate licensed professional to evaluate the sources of the conditions, the

necessary responses, and the remedial actions, and advise the tenant of any potential health risk.

BE SURE TO GIVE YOUR TENANT A COPY OF THE COMPLETED AND SIGNED CHECKLIST FOR THEIR RECORDS

That way, the tenant can review their own copy when they move out if there are charges. I like to use the California Apartment Association's Move-In/Move-Out Itemized Statement at my properties. To access this document, go to `www.wiley.com/go/propertymanagementkitfd4e`. The first column of the checklist is where you note the unit's condition before the tenant moves in. The last two columns are for use when the tenant moves out and you inspect the unit with them again. Often, you don't know the estimated cost of repair or replacement immediately, so you can complete that portion of the checklist later and include a copy of it when you send your tenant the security deposit disposition form. (Chapter 16 has the scoop on how to figure out how much of the security deposit to return to a departing tenant.)

The nitty-gritty details

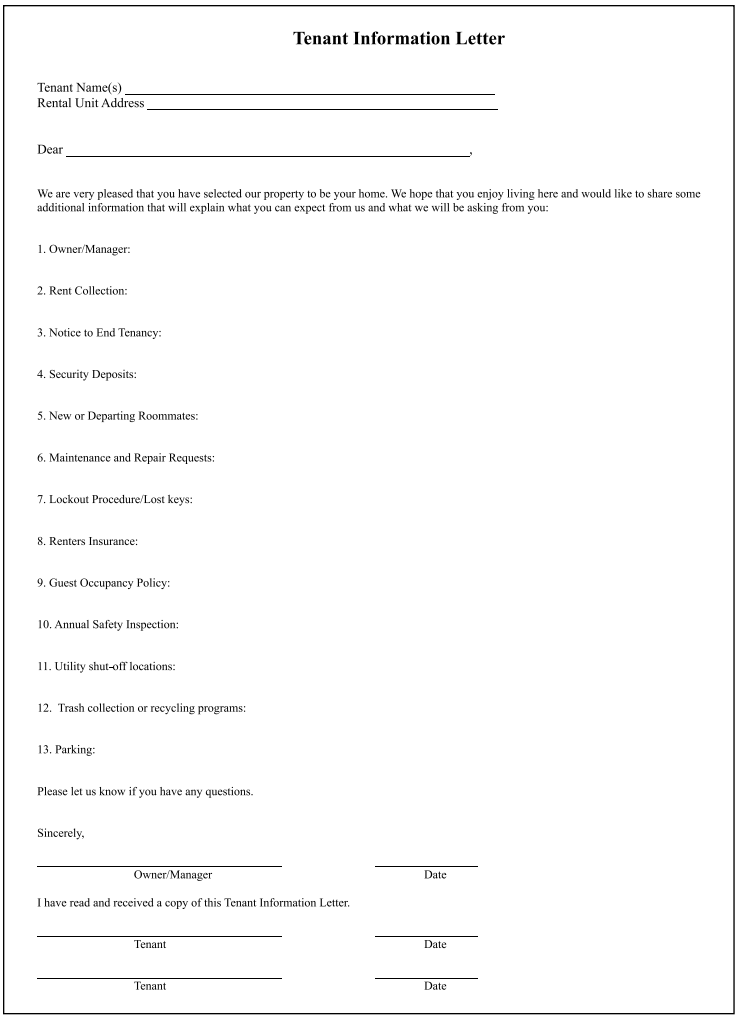
REMEMBER

When your tenant moves in, you don't want to assume that they know everything about the property. Take a few extra minutes during your walk-through with the tenant to do the following:

- **Provide your tenant the appliance manuals or at least copies of the basic operating instructions.** These manuals get lost over the years, but many manufacturers have manuals online that you can download. You may think that your new tenant should know how basic appliances work, but offer to meet them at the rental unit, and go through the proper operation of each appliance. You'll probably find that your tenant appreciates the new information, and you'll also minimize the chance that the tenant will damage the appliances through improper use.
- **If you have natural-gas appliances or gas heat, instruct your tenant to contact the local utility company with any questions or concerns.** This step is particularly important if the tenant detects the sulfur smell commonly associated with a gas leak or has any concerns or questions about proper operation of the appliances. The tenant should also contact the utility company or your maintenance person if they need to relight a pilot light.
- **Tell your tenant where the utilities are and how to shut them off.** Utilities may need to be shut off because of severe weather, a water leak, an electrical short, or a fire on the property. If you have a serious storm or earthquake, your tenant needs to be able to turn off the natural-gas supply immediately as well. Provide your tenant an inexpensive special wrench, available from the natural-gas utility company, and attach it to the gas meter with a simple cable so that your tenant or maintenance person has it handy in case of an emergency.

Giving your tenant an informational letter

The key to success in managing rental properties is developing an efficient system that reduces the time you spend managing your rentals. A good way to minimize phone calls from tenants is to provide them a tenant handbook or a tenant information letter (like the one in Figure 12-3) that outlines all your policies and procedures that are too detailed to include in your rental contract. You can also attach details on the proper operation and care of appliances, along with other important info your tenant needs to know about the rental unit.



Tenant Information Letter

Tenant Name(s) _____
Rental Unit Address _____

Dear _____,

We are very pleased that you have selected our property to be your home. We hope that you enjoy living here and would like to share some additional information that will explain what you can expect from us and what we will be asking from you:

1. Owner/Manager:

2. Rent Collection:

3. Notice to End Tenancy:

4. Security Deposits:

5. New or Departing Roommates:

6. Maintenance and Repair Requests:

7. Lockout Procedure/Lost keys:

8. Renters Insurance:

9. Guest Occupancy Policy:

10. Annual Safety Inspection:

11. Utility shut-off locations:

12. Trash collection or recycling programs:

13. Parking:

Please let us know if you have any questions.

Sincerely,

_____ Owner/Manager _____ Date

I have read and received a copy of this Tenant Information Letter.

_____ Tenant _____ Date

_____ Tenant _____ Date

FIGURE 12-3: Tenant information letter.

Courtesy of Robert S. Griswold

Customize your tenant handbook or information letter to present the house rules you've implemented for each rental property. Although this information should be customized for each property, here are some of the basic items to include:

- Property manager's name and contact number
- Procedures to follow in case of an emergency
- Rent collection information, including when rent is due, how and where payment is to be made, and how late fees and other charges are calculated and handled
- Requirements for ending the tenancy, including the notice requirement
- Procedures for the return of the security deposit
- Handling of new or departing roommates
- Proper procedure for requesting maintenance and repairs
- Reminder to check and test smoke and carbon monoxide alarms
- Reminder to contact owner or manager immediately if water intrusion/leaks or any sign of mold or mildew is present
- Lockout procedure and charges for lost keys
- Renter's insurance requirements
- Guest occupancy policy
- Annual interior unit inspection walk-through policy, if any
- Utility shut-off locations, including a separate diagram for the individual unit and information on how to shut off the utilities
- Essential appliance information, such as what not to place in a garbage disposal and how to keep refrigerator coils clean
- Trash collection and recycling program information
- Parking policies
- Property rules and policies
- Community association or homeowners' association rules and policies

TIP

Many tenants misplace this information when they need it most during their tenancy, so many professional rental owners and property managers are using the Internet to improve the efficiency of managing their properties. You can put the majority of this information online in an electronic tenant handbook and update it as necessary.

WARNING

Having this information online may be efficient and handy, but it's not a substitute for giving your tenants actual physical copies of all items upon move-in. You should also give your tenants — in writing — any changes to the tenant handbook, and as required by law, you should provide in writing any changes in legal terms or rules and policies.

Distributing the keys to your tenant

Distributing the keys is a very serious issue that has significant liability for rental property owners and managers. A problem in key control can allow access to a tenant's rental unit, potentially leading to theft or crimes involving serious bodily injury. Keys require careful handling and should be stored only in a locked metal key cabinet or safe.

As the property owner, you're obligated to take reasonable measures to ensure the well-being of your tenants. Tenants must have the ability to control unauthorized entry into their rental. Consequently, you, as the owner, need to ensure that doors, windows, and locks are in working order and up to the local industry standard. Include an entry lock set and a sturdy deadbolt with at least a $^{13}/_{16}$-inch throw on all exterior entry doors. Provide peepholes on the main or primary exterior entry door as well.

Some states have laws specifically requiring rental property owners to provide window locks. Whether window locks are legally required or not, I recommend that you provide them for all windows that can be opened. Install window locks on upper-level windows as a safety device and as a way of minimizing the chance that young, unsupervised children may fall from an open window.

TIP

For the convenience of your tenants, have a single key that works all entry locks for their particular unit and also operates common-area or laundry-room locks.

One of the least desirable aspects of managing rental property is handling tenant lockout calls. Tenants rarely seem to get locked out of their rental units during normal daylight hours, so you need to inform your new tenants about your lockout and lost-key policies and charges. Set up a policy that acknowledges the difference between lockouts that occur during reasonable business hours and those that occur during nonworking hours. You might charge the tenant $50 for a lockout Monday through Friday from 9 a.m. to 6 p.m. and $100 for a lockout at all other times, for example. If you have an on-site manager, you can charge less or even waive the charge the first time while reminding the tenant that they should have their own spare key in a place that only they can easily access. Of course, you could offer to make an additional key for your tenant so they have that extra "spare key," especially if your keys are marked "Do Not Duplicate".

REMEMBER

Changing the locks between tenants is extremely important. Previous tenants may have retained copies of the keys and may return to steal or commit some other crime. You can purchase and install a new lock or have your maintenance person or a locksmith rekey the existing lock. If you have several rental units, substitute the existing lock set with a spare lock set. Keep several extra lock sets in inventory so that you can rotate locks between units upon turnover. Have your new tenant sign a statement indicating that they're aware that the locks have been changed or rekeyed since the previous tenant vacated. Then give them a copy of the locksmith's receipt for their records.

The rental housing industry relies on locks, and until recently, technology hadn't changed in years. But following the lead of the hospitality and lodging industries, rental property owners are beginning to see many more options that offer better security and key control for rental housing. The cost of many of these systems is coming down, but it still remains too high for the average rental property owner who has just a few rental units. Still, this advancement is an important trend that will be beneficial for owners, property managers, and tenants down the road. I suggest you see what technology options in access control are available and economically feasible for your rental property.

WARNING

If you have a master key system for your rental properties, be extremely careful with it. Don't keep any extra copies or loan the master key to anyone whom you don't trust implicitly. Although locksmiths are required by law to have written authorization before duplicating a key marked "Do Not Duplicate," remember that a person who wants a copy of your key to commit a crime isn't likely concerned about breaking the law by copying the key illegally.

THE IMPORTANCE OF CHANGING LOCKS BETWEEN TENANTS

TRUE STORY

As the host of a weekly call-in radio show on real estate for more than 14 years, I was often amazed by some of the stories I heard. I'll never forget the call I received from a tenant in a small multiunit rental property who was shocked to find out that another tenant had a key to their unit. Apparently, one of the tenants had loaned the key to a family member who got confused and inadvertently entered my caller's rental unit. When the caller confronted the property owner, the owner wasn't very concerned and didn't understand the tenant's concern. The owner stated that they always used the same locks so that they didn't have to carry around extra keys if they needed access to a rental unit in case of an emergency. Lesson: Make sure that all your locks are uniquely keyed!

Setting Up the Tenant File

You need to be able to access important written records immediately, and one way of ensuring that you can is to have an organized filing system so that you don't waste time searching for a lost or misplaced document. The best way to accomplish this goal is to set up a new tenant folder for each tenant at the time of move-in. This folder should include the following documents:

- Tenant contact and information form
- Rental application
- Rental application verification form
- Credit report
- Other reference information, including criminal-background report, if any
- Holding deposit agreement and receipt, if applicable
- Signed rental contract
- Lead-based-paint disclosure form
- Smoke alarm agreement
- Any other addenda to the lease or rental agreement
- A move-in/move-out inspection checklist
- Smartphone photos or video of the unit, taken at move-in

TIP

Set up a file folder for each of your rental properties, with individual files for each tenant. Turn to this file throughout the tenancy, adding to it all new documents such as rent increases, notices of entry, maintenance requests, and correspondence. Keep tenant files for four years after the tenant vacates. And remember that your tenant's file contains personal information such as Social Security numbers, credit reports, and bank account numbers. With the concerns about identity theft, you want to protect these files as though the information were your own; store the files in a locked container.

Preparing a Welcome Package for Your New Tenant

Tenant satisfaction and retention are critical to success in rental management. One way to make a positive first impression is to provide your new tenant a welcome package when they move in. Welcome packages can be very elaborate or may contain just a few inexpensive but thoughtful items.

Give your new tenant a simple welcome package with a few useful items, such as a couple of bottles of spring water in the refrigerator, a bar of soap and a roll of paper towels in the kitchen, a few change-of-address forms, a pad of scratch paper and a pen by the phone, and a roll of toilet paper in the bathroom. A discount coupon or a gift certificate for a free pizza is another great way to impress a new tenant.

Another simple idea that really impresses new tenants is offering one or two hours of free maintenance assistance when they first move in. Every new tenant needs to hang a few pictures, install a paper-towel holder, or do some other minor maintenance work to make your rental unit feel like home, so why not offer a helping hand?

WARNING

All your efforts to make a great first impression by offering some free maintenance can backfire if the tenant doesn't clearly understand the limitations of your offer or if the maintenance person is rude or doesn't do quality work. Provide your new tenant a list of suggested maintenance items, and be sure to have your tenant sign a simple disclaimer form waiving their right to sue you or make a claim if your maintenance person damages their favorite picture while hanging it on the wall.

IN THIS CHAPTER

- Establishing when rent is due and where and how it's paid
- Handling late, returned, and partial payments
- Increasing the rent without losing your tenants

Chapter 13
Collecting and Increasing Rent

If location is the most important factor in real estate investing, collecting rent in full and on time is the most important element in managing your rental investment. But how can you make sure that your tenants pay their rent on time every month? The reality is that most tenants don't have significant cash resources, and many live from paycheck to paycheck. So if a tenant's paycheck is delayed, their car breaks down, there is a pandemic-induced government shutdown of most businesses, or they have an unexpected major expense, their ability to pay the rent in full and on time is in jeopardy. And because the tenant's funds are so tightly budgeted, when they fall even one month behind on rent, catching up again is even more difficult. Fortunately, you can take steps to increase the likelihood that you'll get all your rent money on time, all the time.

REMEMBER

You can begin laying the foundation for successful rent collection before you rent your property. The best preventive measures include targeting your advertising to responsible tenants and establishing a thorough, careful tenant screening and selection process. (I tell you all about the tenant selection process in Chapter 11.)

Collecting the rent is a key part of property management, as is keeping your rent competitive with the market. Raising the rent to reflect trends in your area is also a necessary part of managing rental properties. Keeping rents as close as possible to market rents is critical if you're in an area that currently has or could implement rent control. With rent control, if you fall behind on keeping your rents close

to the market rate, it could take you years of government-limited rent increases to catch up to the market rent. Many property owners hesitate to raise the rent for existing tenants, but trust me when I say that you can do so effectively and without risking the loss of your tenants.

In this chapter, I fill you in on what you can do to guarantee that you're getting paid on time and that you're charging competitive rent.

Creating a Written Rent Collection Policy

The keys to rent collection success are establishing policies and procedures and fairly yet firmly enforcing rent collection. Setting up a rent collection policy, putting it in writing in your lease or rental agreement, and repeating it to your tenants in the tenant handbook or information letter is the best way to ensure their understanding. No single rent collection policy works for *all* property owners, but every policy should cover when rent is due, where it's paid, and how it's paid. I offer considerations for each of these key issues in the following sections.

REMEMBER

Be sure to point out that each tenant is jointly and severally responsible for the full payment of rent as well as any damages. *Jointly and severally* is a legal term meaning that each of your tenants is responsible for paying the entire monthly rent. So regardless of any agreement between co-occupants or roommates, every tenant can be legally required to pay the entire rent, not just their share. Use this phrase on the lease immediately after the insertion of the tenants' names, and note the meaning when you sign the lease agreement with the tenants.

TIP

Review your rent collection procedures with each adult occupant of your rental unit before accepting a rental application so that no one misunderstands the necessity of prompt payment of rent. Then make rent collection a featured topic of your pre-move-in orientation meeting with tenants when they review and sign the rental contract.

When rent is due

I recommend that you require your tenants to pay the full monthly rent in advance, on or before the first day of each month. This method is the most common one, and many state laws require it unless the rental contract specifies otherwise.

That said, you and your tenant can determine that the rent is due on any mutually agreeable date during the month. This approach may make sense if your tenant receives income or financial assistance payments on certain dates. You may have

a tenant who receives a check on the 10th of each month, for example, so set the rent due date for the 15th of each month

Some owners make the rent payable on the date when the tenant moved in. If the tenant moves in on the 25th of the month, for example, their rent is due on the 25th of each future month. This practice is legal and may be acceptable if you have only a few tenants and are willing to keep track of each due date, but making all your rents due on the first of the month makes life simpler and prevents confusion.

If your rent due date falls on a weekend or a legal holiday, most states allow the tenant to pay by the next business day. This policy may not be mandatory in your state, but adopting it is a good idea.

REMEMBER

Although rent is traditionally paid in full at one time, you may agree to let your tenant divide up the rent and pay twice a month, every week, or according to some other time frame. Try to avoid accepting more frequent payments, because your goal is efficiency, and handling the rent collection process as few times as possible is definitely more efficient.

WARNING

Be careful to document that any differences in rental collection terms are based on legitimate business decisions; otherwise, your actions may be seen as favoring one tenant over another. You may have a tenant who formally requests an accommodation in payment terms under fair-housing laws, of course. In this case, seek advice from local landlord–tenant legal counsel.

In addition to fair housing concerns, think about the ramifications of accepting rent based on the tenant's scheduled receipt of income rather than your usual rent due date. By accommodating the tenant, you're tacitly acknowledging that they need that payment to afford the rent. But one of the fundamental tenets of rental housing management is to avoid tenants who can't afford the rent. If your tenant needs that income to pay your rent that month, you have no safety net if the tenant's check is lost in the mail, their car breaks down, or they're temporarily laid off from their job.

To avoid surprises and delinquent rent, you don't want your tenants' finances to be so tight that they need this month's income to pay this month's rent. Check out Chapter 11 for tips on selecting tenants with enough financial resources to pay this month's rent with cash on hand.

Prorating rent

Life would be simpler if all your tenants moved in and out on the first day of the month, but they don't. If your tenant's occupancy begins in the middle of the month, and your rent collection policy states that all rents are due on the first of

each month, you need to prorate the tenant's rent at move-in. Following are two basic ways to prorate the rent at the beginning of your new tenant's occupancy:

- **If your tenant moves in toward the end of a month, collect a full month's rent (for the next month), plus the rent due for the prorated portion of the current month.** If your tenant takes occupancy on June 25, for example, upon move-in, collect six days' rent for the period June 25 to June 30, plus a full month's rent for July. A new tenant is usually glad to oblige if only a few days are prorated.
- **If your tenant moves in early in a month, collect a full month's rent before move-in and then collect the balance due for the prorated rent on the first day of the next month.** If your tenant moves in on May 10, before they take occupancy, collect a full month's rent that covers the period May 10 through June 9. On June 1, collect the balance due for June 10 through June 30 (21 days' worth). By July 1, the tenant is on track to pay their full rent on the first day of each month.

WARNING

Don't let your new tenant move in without making at least a full month's rent payment. Though the tenant may want you to accept only the prorated rent for that month, you don't want to turn over your rental unit for a payment of only several days' rent.

REMEMBER

Unless otherwise agreed, you normally apportion rent from day to day uniformly by using a 30-day month. Divide your monthly rental rate by 30 to determine the daily rate, and multiply your answer by the number of days in the partial rental period. (***Note:*** This formula applies to February as well.)

Providing a grace period

Many rent collection policies allow for a *grace period* that provides tenants a few extra days to pay their rent in full before incurring late charges. Most tenants incorrectly believe that if they pay rent within the grace period, their payment is legally on time. But the rent is due on or before the due date. If rent is paid later, it's considered to be delinquent from a legal perspective, regardless of the grace period's terms.

REMEMBER

Make sure that your rental contract and the tenant information letter are very clear about the fact that rent is due on or before the due date and that it's technically late if paid during the grace period.

Grace periods are optional in most states and can be any number of days in length. But a few states (including Connecticut, Maine, Massachusetts, New Jersey, New York, North Carolina, Oklahoma, Oregon, Rhode Island, Tennessee, Texas, and Virginia) and the District of Columbia have mandatory grace periods or

restrictions on serving a *notice to pay rent or quit* (a legal notice demanding rent payment), so be sure to check your local and state laws. Unless you're restricted from doing so by law, I recommend that you set your grace period to expire on the third of the month and allow an extra day or two if the third falls on a weekend or holiday.

TIP

In most states, you don't have to wait until the grace period expires to begin your collection efforts with tenants who show a pattern of being late. You can even serve legal notices demanding the rent payment. Your rental contract should contain a specific provision that you have the right to refuse payment after the expiration of your legal demand notice so you aren't obligated to accept an offer of rent from the tenant and can move forward with eviction, if necessary.

Where rent is paid

You can collect your rent in several ways, but unless otherwise agreed, many states require that you collect the rent on the premises. Although stopping by the unit allows you the opportunity to see your property, it isn't time-efficient unless you live on or very close to your property, especially if you have to make multiple trips. The benefits of in-person collection also depend on your tenants' expectations. Tenants in low-rent properties often expect you to come by and collect the rent in person, whereas renters in middle- to higher-rent properties tend to think you're too nosy if you come by for the rent.

If you'd rather not collect the rent in person, you can have your tenants pay in one of the following ways. Just make sure you agree on this information when each tenant signs the rental contract:

- **Tenants can mail the rent to you.** For most rental property owners and tenants, the most popular way to remit the rent payment is to mail it. Because collecting rent by mail is effective only if your tenants pay on time, I strongly suggest that you make doing so extremely simple for your tenants by providing stamped, preaddressed envelopes. Giving tenants several envelopes at the same time is efficient as long as they don't lose them or use them to pay other bills.

  WARNING

  If you and your tenants agree that the rent will be mailed, you may run into a major question: Is the rent considered to be paid when it's postmarked or when you receive it? Check your local laws, and have a clear, written agreement in your rent collection policy. Absent any legal requirements, I recommend that you consider the rent to be paid when the payment is postmarked. By mailing the payment on time, tenants are acting in good faith, and you don't want to unfairly penalize them if the mail is delayed.

- **Tenants can bring the rent to your home or office.** Although this method may be very convenient for you, many tenants object to having to deliver their monthly rent. For this reason, my experience is that asking tenants to deliver the rent to you isn't the most reliable method to ensure getting it on time. Instead, this request places an additional burden on your tenants when your goal is to simplify the rent collection process for everyone involved.
- **Tenants can drop their payment in a safe, secure drop box or designate one of your most responsible tenants to collect or receive rent from other tenants.** One way to minimize your trips to the property to collect rent is to have your tenants use a drop box that you can have securely built into the structure of the property (safe from theft or damage). Or you can designate one of your tenants to collect the rent in exchange for a small rent credit. You can ask this responsible tenant to be your "eyes and ears" on the property and make sure that the property is clean and neat as part of their overall responsibilities.

The issue of where rent is paid is moot if your tenants are willing to make their payments electronically. There is a very strong trend toward payments of all kinds being made electronically, as that process is much more efficient for everyone. Check out "Digitizing the day-to-day: Electronic payments" for details on this method of paying rent.

How rent is paid

Your rental contract should clearly indicate how tenants should pay rent: by personal check, cashier's check, money order, cash, or electronic payment. Regardless of the method, give your tenants a receipt for all money received.

Digitizing the day-to-day: Electronic payments

Technology is making the rent collection process much more efficient and timely. Now rental owners and property managers can benefit from their financial institutions' ability to process hundreds of rent payments in a matter of minutes. Due to improvements in software automation and *security encryption*, which prevent the theft of confidential information, electronic payments are actually more secure than the conventional check-payment method.

Several companies offer technology for the electronic transfer of funds to allow tenants to pay their rent. The computer software enables you to download the details on all payments processed each month. You're automatically notified if a tenant doesn't have sufficient funds to cover the transfer so you can enforce your regular rent collection policies. Check with your local Institute of Real Estate Management (IREM) chapter or National Apartment Association (NAA) affiliate for more info on these companies.

Most tenants, especially millennials and younger people, are quite comfortable paying electronically rather than writing and mailing a check each month. With electronic payments, a tenant simply fills out a form one time; then the preauthorized amount is deducted on a designated day (usually between the first and third of each month) from their bank account and deposited directly into your account.

If you want to set up your tenants to pay electronically, refer to the Automated Clearing House debit authorization form at `www.wiley.com/go/propertymanagementkitfd4e` Consult your financial institution for the necessary banking information to ensure that payments are credited to your rental property account.

Putting pen to paper: Checks

For many rental property owners, accepting checks (personal or cashier's) and money orders is routine. Most tenants have personal checking accounts, so paying by check is easy for them. Check processing has improved greatly, with new federal regulations for the banking industry that allow checks to be scanned and converted to electronic funds transfer. Check with your financial institution to see whether you can use this technology to simplify your rent collection, provide immediate access to the funds, and eliminate several trips to the bank. Many financial institutions offer mobile check deposit (aka remote deposit capture) with smartphone apps that allow you to deposit checks by taking a photo of the front and back of the check and electronically transmitting the image. You still need to endorse the check, and your financial institution can place a hold on the funds or return the check. Because these apps don't allow you to store the check image on your phone, however, be sure to hold on to the physical check until you have confirmed the deposit.

REMEMBER

Here are some important notes to keep in mind about checks:

- **I strongly advise against accepting postdated checks.** Some property owners request postdated checks from their tenants with the idea that they'll already have the rent payment in hand, and the tenants just need to make the funds available to cover the check. Often, however, these checks aren't good, and many state laws consider a postdated check to be a promissory note. You may be unable to file an eviction action for nonpayment of rent while the note is pending.
- **Payment by check is conditional.** If the check isn't honored for any reason, it's as though the tenant never paid, and late charges and returned-check charges should apply. Check scanning can give you immediate notice that funds aren't available, allowing you to contact the tenant and promptly begin collection efforts.

- **Never accept second-party checks, such as payroll or government checks that your tenant wants to endorse and give you as their rent payment.** These checks are not to be confused with government checks or third-party checks that are part of an assisted-housing program, or the CARES Act checks or similar public or private entities that helped tenants pay rent during the COVID-19 pandemic.

To make sure that you're not getting a bad check well into the month, institute a policy that all rent payments made after the grace period must be electronic payments or in the form of a cashier's check or money order.

Busting out the big bucks: Cash

Although some tenants may want to pay rent with cash, avoid accepting it whenever possible. Turning down cash is always difficult, and your tenants may remind you that cash is legal tender. But according to the U.S. Department of the Treasury, you have the legal right to refuse cash, because accepting cash

- **Can make you a target for robbery:** Even if you use a safe, your risk is increased.
- **Has no paper trail to confirm the amount paid:** If you are handed cash and don't immediately, in the presence of your tenant, verify in writing the amount paid, there could be a dispute, with the tenant claiming to have paid a higher amount.
- **Can add the risk of employee theft, if you have employees:** Also, you're potentially putting your employees in danger.
- **Attracts tenants who may be involved in illegal businesses that deal primarily in cash:** Although many employees in legitimate businesses derive income, at least partially, from cash tips (wait staff and beauticians, for example), so do drug dealers. Criminal tenants don't want to have their activities tracked and prefer properties where cash payments are allowed. Don't make your rental property more attractive to the criminally inclined.

REMEMBER

Clearly state in your rental contract that you don't accept cash under any circumstances. Reinforce this policy early in the relationship, and don't accept even small amounts of cash for rental application fees or late charges. If a tenant is facing eviction, however, and offers full payment in cash, you may want to accept the funds at a place where you feel safe (your home or office), because you may find that the eviction court isn't inclined to allow you to terminate the tenancy if you refuse the proposed cash payment for the entire amount due.

WARNING

Good accounting practices suggest that you clearly document all your income and expenses. The Internal Revenue Service may consider auditing your rental housing if it learns about frequent cash transactions at your property.

MANAGING MULTIPLE RENT PAYMENTS

When you have multiple tenants in one of your units, you'll probably receive several payments for portions of the total rent due, and you may not receive all the payments at the same time or for the proper amount. When you call the tenants, some of them may say that they paid their share and that you need to track down one of the other tenants.

How your tenants choose to divide the rent among them isn't your problem, and accommodating your tenants by accepting multiple payments can cause administrative nightmares. It can also lead roommates to erroneously believe that they're not responsible for the entire rent. You're better off having a firm policy of requiring one payment source (check, money order, or electronic payment) for the entire month's rent. This practice offers more than just administrative convenience. Legally, each roommate in your rental property is *jointly and severally* liable for all rental contract obligations, meaning that if one skips out, the others owe you the entire amount.

Encourage your tenants to let the delinquent roommate know that although they've all paid a portion of the rent, they're on the hook until the balance is paid. After all, your tenants are in a better position to track down their elusive roommate than you are.

Dealing with Rent Collection Problems

Tenants don't always pay rent on time and in full, which is why you need to have policies in place for the most common problems you'll encounter in rent collection. These rules should outline the specific penalties for late payments, returned checks, insufficient funds, and failure to pay in full. I cover some of these key issues in the following sections.

WARNING

Apply your rent collection policies — including charges for late payments, dishonored payments, and partial payments — consistently with all tenants. If you don't, you can be accused of discrimination by allowing some tenants to pay late or by accepting multiple payments from some roommates and not from others.

Collecting late rent

One of the most difficult challenges for a rental property owner is dealing with a tenant whose rent is late. You don't want to overreact and begin serving threatening legal rent-demand notices, because doing so creates tension and hostility if the tenant has a legitimate reason for the delay. Then again, late rent can be a very serious issue.

TIP

Communication is the key to keeping your response in line with the magnitude of the problem. Remain calm and businesslike, and focus on determining why the rent is late before taking any action. If you're having trouble collecting rent on time, consider these options:

- **Email or text your tenants' monthly payment reminders or invoices.** Although electronic payments are the best approach, some owners find that a rent coupon book (like a mortgage payment coupon book) can be helpful in improving their rental collections. If you send invoices, be sure that your rental agreement indicates that these invoices are a courtesy only. Otherwise, some tenants may say that they didn't receive an invoice, so they didn't think their rent was due.
- **Call or text slow rent-payers routinely.** Landlords and property managers seeking payment of delinquent rent aren't subject to the regulations set by the Fair Debt Collection Practices Act, so you can call or text tenants at home *and* at their places of business. (Although you may not want to bother your tenants at work, don't feel bad calling there as long as you're respectful and professional, and discuss the nature of your call and with your tenant. You do have a right to know when to expect your rent.) When you call or text, remind these slow payers that the rent is due on or before the first of the month. You can also remind them that you expect your rent to be a top priority among their various financial obligations.

  If you're forced to make reminder calls or texts every month, consider the extra time you're spending on these tenants, because your time is too valuable to babysit them. If they consistently fail to pay the full rent on or before the due date, don't renew their rental contract; make sure to give a written notice to terminate the tenancy.
- **Go to the rental unit, and speak directly with tenants.** Don't be shy, or paying the rent will quickly become a low priority for your tenants. Remember to document your visit with written notice to the tenant; you may need to show it to a judge at some point in the collection process.

The most effective way to collect rents and determine whether you should exercise a little patience is to contact your tenants directly. Simply emailing, texting, or mailing a rent reminder or hanging a late notice on the front door can be effective with tenants who just need a reminder, but these tactics typically don't get the job done with tenants who are financially strapped and are likely to respond only to direct personal contact.

REMEMBER

When contacting tenants, your goal isn't to harass them but to remind them about rent payments or to be solution-oriented and work out an agreement to get your rent. Whatever agreement you reach, make sure that it's in writing and that the tenants sign it. A verbal understanding or even a written agreement that is not

signed will not be enforceable in court and is of no use in your rent collection efforts.

If you're having trouble locating a tenant, check with their neighbors, or call the emergency contact listed on their rental application. Check to see whether the utility company has been told to cancel the utilities; maybe the tenant has skipped town without notifying you.

WARNING

Your rent collection policy is the most critical element in your rental agreement. As the landlord, you need timely payment of rents. After all, you likely use these funds for your mortgage, taxes, and insurance payments or other expenses. The most common mistake I see landlords and managers making is breaking their own rent collection rules. They allow rents to be paid late, accept excuses, fail to send timely collection or legal notices, and find themselves housing tenants who are weeks — even months — behind in rent payments. You *must* be firm in your rent collections.

Charging late fees

More than a dozen states have laws addressing restrictions on late charges, so be sure to check with your local NAA affiliate before establishing a late-fee policy, and read your state statutes for late-fee guidelines and restrictions. Generally speaking, though, implementing and enforcing a late-charge policy makes sense, as long as it's reasonable and relates to your actual out-of-pocket costs or expenses incurred by the late payment.

WARNING

Don't allow tenants to form the impression that your late-charge policy approves of late rent payments as long as you collect the late charges. Your late charge should be high enough to discourage habitual lateness but not so high as to be unreasonable. Send written warnings to tenants who regularly pay late (even if they pay the late charges), clearly indicating that their late payments are unacceptable and are a violation of the terms of the lease.

You can assess late charges in one of several ways:

- **Flat fee:** The most common late charge is a *flat fee,* which can be any set amount, due immediately after the grace period. Typical flat fees range from $30 to $100 and usually are set at 4 to 6 percent of the monthly rental rate. One problem is that many tenants are only one or two days late, making a flat late charge unreasonable. Property owners in this situation often end up waiving the flat fee, especially if it's at the higher end of the range. If the matter ever goes to court, the tenant usually challenges the fee, and the court may throw it out.

- **Percentage late fee:** A *percentage late fee is* calculated as a percentage of the rent payment and ranges from 4 to 8 percent of the monthly rental rate. The customary late-fee percentage for late rent payments is 5 or 6 percent, but be aware that some states have legal limits on late charges expressed as a percentage of the rent.
- **Daily late fee:** If you use a *daily late fee,* you set a daily late charge with a reasonable cap or maximum fee. I've found that for a tenant paying $1,000 per month, a late charge of $5 per day, with a maximum of $50, works very well. A tenant who is only one day late pays a nominal $5 late fee. A tenant who is eight days late pays a heftier $40. You would adjust the daily late charge higher if your rental rate is higher. If your monthly rent is $3,000, a $15-per-day late charge with a $150 maximum would be reasonable. The purpose of the cap (which you can also express as a percentage of the rent, such as a maximum of 5 percent) is to keep the late charge reasonable. By the time you get to the cap (at 10 days late), you'll have already sent the proper legal rent-demand notices and incurred additional time and expense that justify the late charge.

The flat fee and the percentage late fee methods both fail to provide an incentive for the tenant to pay rent promptly. After the late charge has been incurred, the tenant often finds other financial obligations to be more important than your rent. Assessing a daily fee, on the other hand, offers the incentive some tenants need to get their rent in sooner rather than later.

WARNING

Waiving the late charge excuses late payment of rent and can send the wrong message to your tenants. If you routinely accept late payments and waive the late charges, you can't suddenly change your attitude and begin eviction proceedings the next time a tenant pays late. Instead, you need to provide written notice that you're once again actively enforcing the strict rent collection terms of your rental contract. You also need to be consistent in applying your late-charge policy to all tenants equally; otherwise, you risk facing claims of discrimination or issues in court. Judges often rule that if you break your own rules, they're no longer rules that can be enforced against your tenants. As difficult as it is to be firm at times, you must show consistency.

TIP

If you receive a late payment by mail, always keep the envelope with the postmark in case the tenant wants to dispute the late charge.

Except where restricted by law, you need to evaluate your own increase in costs as a result of late rent payments to determine what a reasonable late charge should be for your property. Put this amount in writing, and be prepared to explain your policy if it's challenged in court. Additional costs may include additional communications (emails, texts, phone calls) and in-person meetings with the tenant, the preparation and sending of warning letters and required legal rent-demand notices, time and costs spent preparing delinquency lists, and additional accounting and bank deposits when you receive the funds.

EARLY-PAYMENT RENT DISCOUNTS: YES OR NO?

Some landlords have tried to avoid late-charge problems by using early-payment rent discounts to entice their tenants to pay rent on time. These landlords set the rent in the rental contract slightly higher than the market rent and then offer tenants a reduced rent if it's paid in full and on time. If you want $900 in rent and a $75 late charge, for example, set the contracted rent at $975 with a $75 discount if the tenant pays on or before the third of the month.

Although this tactic may be creative, the U.S. legal system has consistently determined that the actual rent is the discounted amount. The courts view giving a large discount for an on-time payment the same as charging an excessive late fee.

Don't play the early-payment rent discount game. If you're challenged, your case will be thrown out of court. At least two large class-action lawsuits on this specific practice have been ruled in favor of the tenants, and the landlords paid major legal costs and severe financial penalties. This practice is a scam, and the courts have seen right through it. If you want more rent money, raise your rent amount. If you want tenants who pay on time, screen your prospects carefully. Establish a reasonable, fair late-charge policy, and apply it uniformly to all tenants.

Handling returned rent payments

Dishonored rent checks or electronic payments can cause major problems for your rent collection efforts, so you need to charge tenants a fee when you're unable to collect good funds per your rent collection policy.

Often, when you contact your tenant, they'll have some excuse for the returned item and tell you that their payment is now good. Check with your bank about its policy for handling dishonored electronic payments. For old-fashioned paper checks, I recommend that you go to the tenant's bank and cash the check immediately instead of depositing it again. Or you can get the check *certified*, which means that the bank reserves the funds for payment when you deposit it in your bank. ***Note:*** Unless you receive good funds before the end of your grace period, your tenant is also responsible for late charges.

TIP

Demand that your tenant immediately replace a returned check with a cashier's check or money order, or make an electronic payment. After a tenant's check is returned a second time, regardless of their excuse, require the tenant to make all future payments electronically or with a cashier's check or money order (both of which are guaranteed to have sufficient funds). ***Note:*** Tenants can still cancel their

electronic payments or request a stop payment on a cashier's check or money order, so be sure to process the transaction right away.

REMEMBER

Like late charges (covered in "Charging late fees" earlier in this chapter), dishonored-electronic-payment and returned-check charges should be reasonable. Try setting the fee at $25 to $35 per returned item, or slightly higher than the amount your bank charges you. Disclosing the amount you'll charge for a returned or insufficient-funds check in your rental contract gives the tenant an added incentive to avoid this needless expense.

Dealing with partial rent payments

Occasionally, you'll encounter a tenant who isn't able to pay the full rent on time. They may offer to pay a portion of the rent with a promise to catch up as the month proceeds. Your written rent collection policy shouldn't allow partial payments of rent, and deviating from this standard generally isn't a good idea.

In some instances, however, allowing partial rent payments may make sense. If your tenant has an excellent rental payment history, and you can verify that this partial payment is a one-time situation, you're probably safe in accepting a partial rent payment. You need to be careful, of course, and watch for the tenant who's delaying the inevitable and stalling you from pursuing your legal options.

If you do accept a partial payment, prepare the proper legal notice for nonpayment of rent, or draw up a written notice outlining the terms of your one-time acceptance of the partial rent payment, including late charges. Then give the tenant the legal rent-demand notice or written agreement when they give you the partial payment. This way, you can be sure that they understand your terms.

REMEMBER

In most areas, acceptance of a partial payment voids any previous legal notices for nonpayment of rent. If your tenant is causing trouble besides the delinquent rent (read: breaching any other terms of the rental contract), don't accept any partial payments; otherwise, you'll have to begin your eviction proceedings from scratch. In most states, after you begin the legal process for an eviction, you may demand full rent plus all late fees and other penalties, including legal and court costs. If you accept any partial payment before the court hearing, the legal notice is voided, and in some cases, you must refile the eviction action. You may be able to accept a partial payment and simultaneously hand the tenant the new revised legal notice. This approach makes sense only if the partial payment you accept is significantly greater than the rent that is due for those days that you lost by having to reissue the legal notice and essentially start your legal action from scratch. If you're set to go to court in a week, for example, and if accepting a partial payment will set you back a full month, you won't be willing to accept an amount that isn't greater than a full month's rent.

REWARDING TIMELY PAYMENTS

Because timely rent collection can make or break your career as a rental property owner, you may want to offer your tenants incentives to pay on time. If you have several rental units and are in an area where keeping your property fully occupied can be a challenge, one good way to motivate your tenants to stay and pay the rent in a timely fashion is to offer a monthly prize drawing for everyone who pays rent in full by your due date. You need to outline your rules carefully in writing, of course, and make sure that you don't violate any local or state laws.

The drawing should be simple and easy for your tenants to understand. Limit eligibility to tenants who are current with their rent, and automatically enter tenants when you receive their full rent on or before the due date. Inform tenants of the time and place for the drawing, and try to hold it in a common area at one of your properties. You can also give a second entry to tenants who pay early, but make sure that your rules disqualify a winner whose rent payment is returned later for any reason.

The prize can be a gift certificate to a local store or restaurant. (Often, the merchant is willing to discount or donate the prize if it gets some good publicity from your drawing.) You may even want to offer a discount on the next month's rent. Either way, consider sending out a written announcement congratulating your monthly drawing winner.

TIP

Always apply rental payments to the oldest outstanding past-due rent amount, even if the tenant tries to indicate that the payment is for a different period.

Serving legal notices

If you're having trouble collecting rent from one of your tenants, you may need to pursue legal action. In most states, you don't need to wait until the end of the grace period to serve a legal rent-demand notice, but you should serve it personally whenever possible. Be aware, however, that some states forbid the service of legal documents by the plaintiff. (In a legal action against your tenants, the plaintiff is you.) Check your state statutes, because you may need to have the tenant served by another employee or a contracted process server. Contact your local NAA affiliate for the process-serving requirements in your area.

WARNING

Legal notices for nonpayment of rent and similar breaches of the rental contract vary widely from state to state. The generic forms available from office-supply stores may be ineffective or even invalid in your region. Contact your local NAA affiliate or the National Association of Realtors member board in your area for current, legally correct forms.

Raising the Rent without Sending Your Tenants Running

Increasing the rent is one of the most difficult challenges that rental property owners face. You may be wondering how to raise the rent, worrying that tenants will leave, or questioning how rent-control ordinances may affect your efforts. I help clear up these murky waters in the following sections.

Figuring out how to raise the rent

The best way to establish your rent increase is to review the local rental market regularly to determine the current rental rate for *comparable properties* — ones that are of similar size and condition and that have the same features and amenities. Turn to Chapter 6 for more information on evaluating the competitive rental market and setting rents.

REMEMBER

Unless you're in a rent-controlled area, you have no limit on the amount or frequency of rent increases for month-to-month or periodic tenants — with proper legal notice. If your tenant is on a lease, you need to hold off on raising rent until that lease expires. You can raise the rent as much and as often as your good business judgment and the competitive rental market allow. But don't be too aggressive; if you are, you'll lose your best tenants. Trying to get that last $25 per month can cost you a vacancy with significant turnover costs, plus the lost rent, which is likely much more than $25 per month! I also recommend that you don't raise rents in small amounts too frequently, which tenants view as a nuisance. Even in a rental market with rising rents, you want to limit your rent increases to no more than once or twice per year, and ensure that the amounts are justified and reasonable in the eyes of your tenants.

TIP

Here's a bit of advice about rent increases to keep in mind:

- One of the best ways to determine an appropriate rent increase for existing tenants or at the time of a lease renewal is to look at the rates you're charging new incoming tenants for a similar unit. You may need to make adjustments to reflect the condition of the existing tenant's unit versus the rent charged for your upgraded or fully renovated rental units.
- Many wise rental property owners intentionally keep their rents slightly lower than the maximum amount the competitive market will allow as part of a policy to retain the best tenants. This policy may not make sense in areas with rent control, however, as you'd be limited in your future rent increases if you suddenly faced significant increases in your expenses. In rent-control areas, it's best to go with the maximum rent increase allowed up to the full market rent for your area.

WARNING

Be careful when raising the rent so that you're not accused of retaliatory rent increases. Increasing the rent immediately after a tenant complains to the local health department or building code enforcement agency, or raising the rent much higher for one tenant than for others, is likely to lead to problems. As always, your best defense is to have a sensible rent-increase policy, keep good records, and be consistently fair and equitable with all your tenants. If you routinely increase rents for multiple tenants at the same time or at a certain month of the year, the fact that a tenant made a complaint to a government agency doesn't inoculate them from receiving a regular or routine across-the-board rent increase.

Keeping your tenants (relatively) happy

Whether you raise the rent for the first time in several years or raise it on a semi-regular basis, most tenants naturally have a negative reaction to a rent increase, so you need to do your homework and make sure that your increases are reasonable and justified. When the rental market is tight, adjust your rent by small amounts with greater frequency rather than large amounts less often. Most tenants don't leave over a small rent increase.

TIP

Here are a couple of tips that you may find helpful:

- If your rental property is in an area with modest increases in rent per year, it's better to make a modest annual rent increase than to make a larger rent increase in two years. If you find that rents are increasing by around $20 to $25 per month, for example, I suggest that you increase the tenant's rent by that amount annually, rather than wait until the second year and increase rent by $40 to $50 per month.
- Before increasing your rent, determine what improvements you're going to make in your property's common area or, better, in the tenant's unit. I suggest setting a budget equivalent to three to six months of the rent increase and making an immediate upgrade to the tenant's unit. Often, just painting and cleaning or replacing the carpet helps your tenant accept the rent increase. Tenants also appreciate new plumbing or light fixtures.

Although you're legally required to give only 30 days' notice in many cases, I recommend a minimum rental-increase notice of 45 days. If the rent increase is significant (10 percent or more), a 60-day written notice is advisable. Some owners fear that giving their tenants notice also gives them plenty of time to find another rental. But if you set your increased rent properly and treat your tenants fairly, you want your tenants to have the opportunity to compare the new rental rate with the market conditions.

HOW RENT CONTROL MAY AFFECT YOU

If you don't live in California, Maryland, New Jersey, New York, or the District of Columbia, you don't have to worry about rent control limiting your rental rates or the timing of rent increases. But if you live in one of these regions, know that many of the larger cities and certain surrounding communities have rent-control laws that regulate many aspects of the landlord–tenant relationship.

Although rent-control ordinances differ by area, they all feature regulations that landlords must know and that may be broader than simply limiting the setting or adjusting of rental rates. These ordinances also invoke specific requirements that you must meet before increasing the rent.

If you own rental property in a rent-controlled city, you typically must register your property with the local rent-control agency. Always have a current copy of the rent-control ordinance on hand, and be sure that you have a good understanding of all the regulations or procedures you must follow. The services of a landlord–tenant legal expert are extremely important for all rental property owners, but especially in jurisdictions with any form of rent control. Also, your ability or desire to self-manage your rental property may be negatively affected if you're in a heavily regulated or rent-controlled area and are unwilling to keep current with ever-changing regulations. The failure to abide by all the rules, regulations, and processes of owning a rental property in a rent-controlled area can be a very expensive lesson; the cost can easily exceed the savings you expected by self-managing rather than hiring a professional property manager.

If possible, inform each tenant personally of the pending rent increase, and be sure to follow up by serving formal written notice of the increase and keeping a copy in each tenant's file. The letter doesn't have to be a literary work, but you may consider attaching any market information obtained from your market survey (see more about market surveys in Chapter 6) so that your tenants can see you've made an informed decision.

IN THIS CHAPTER

- Retaining your tenants by recognizing and fulfilling their wants and needs
- Reducing turnover by enticing tenants to renew their leases

Chapter 14

Keeping the Good Tenants (And Your Sanity)

An occupied rental unit is the key to your success as a property manager. Yet this basic fact is something that many rental property owners quickly forget. Advertising your vacancy, having a professional presentation, knowing all the latest sales closing techniques, implementing a thorough and unbiased tenant screening program, and moving in your prized tenants with efficiency are all key parts of your job. But the day your tenant moves in is the day your most important job begins: keeping them satisfied and happy.

REMEMBER

You want your best tenants to stay and pay. If you offer a quality rental experience at a reasonable price, you'll have lower turnover than other rental properties do. You can achieve this goal by treating tenants with the same personal attention and courtesy you demonstrated when you first spoke to them on the phone or gave them a tour of the property.

Knowing what your customers want is the key to success in any business, and as a rental property owner, your tenants are your customers. In this chapter, I tell you what most tenants are looking for in a rental experience so that you can make sure you're meeting those expectations. I also give you some tips on getting your tenants not only to enjoy their experiences at your property, but also to renew their leases.

Knowing What Tenants Want

If you're trying to raise your level of tenant satisfaction (which should always be your goal), you need to determine what your tenants want and how to deliver it to them. The following sections reveal what your tenants are looking for.

TRUE STORY

OUT OF SIGHT SHOULDN'T BE OUT OF MIND

In my early years as a regional property manager, my wife and I lived on-site at one of the properties I oversaw for a large firm. We lived across the shared stairwell landing from Beatrice, one of the kindest and quietest neighbors you could ever have. Beatrice was a widow who kept to herself and ventured out only a few times per week for church, her hair appointment, and her bridge club. She always paid her rent early and never complained. So what was the problem?

Well, Beatrice not only didn't want to bother any of the neighbors, but also didn't want to be a burden on anyone and even failed to ask for routine maintenance. So when she eventually vacated her apartment, our on-site management staff were quite surprised when they did their pre-move-out walk-through with her: Only one stove burner worked, and one of the two toilets hadn't worked in years. It took a crew of three handymen a full week to turn over her apartment. When the property's on-site manager asked Beatrice how she could live with so many problems in her apartment and reminded her that two full-time maintenance pros lived on-site, Beatrice's only comment was that she could see how busy everyone was, and she didn't want to bother anyone, as she was sure that her problems were manageable. Besides, because she lived alone, she needed only one burner and one toilet!

Checking in periodically on tenants — even the quiet ones — can be worth a fortune in time and money if you can discover issues early, before they become expensive problems at move-out.

Timely and effective communication

Most tenants are concerned about a variety of fairly obvious issues. Good tenants don't like noisy neighbors, unkempt common areas, broken or unserviceable items in their units, or unsubstantiated rent increases. Fortunately, you can solve most of these problems if you exercise good communication and follow sound management practices.

Nobody likes to be ignored, particularly people who have a problem and are seeking a response and (ideally) a solution. Tenants expect you to care. If you fail to return their calls, texts, or emails, are slow to make repairs, or fail to answer their questions honestly, they'll feel that you're not keeping up your end of the bargain. If you seem to be uncaring or nonchalant about tenants' concerns, they'll get the message that you don't value their business. The perception of apathy is often created by your unwillingness or failure to communicate. If you give your tenants the impression that you care about them only when their rent is late, you're headed straight down that apathy path.

REMEMBER

Keep your tenants informed. No one likes surprises, and tenants are no different. If the pest-control company cancels its service call, let your tenants know right away. If the walk-through with your new lender is rescheduled, call or email your tenants instead of arriving unexpectedly with a weak apology. Common courtesy goes a long way.

Quick responses to maintenance requests

One way to set your rental management apart from your competition is to handle tenants' maintenance requests quickly and professionally. Providing prompt resolution to problems keeps tenants happy.

If a new tenant notes any problems after moving in, don't consider these complaints to be negatives; instead, think of them as opportunities to let your tenant know you care. By addressing the problems quickly and professionally, you actually improve your tenant relations. Successful rental owners don't have to be perfect; they just need to respond in a timely manner, admit that a problem exists, communicate openly and candidly, and promptly take the steps to resolve the issue.

A common complaint about rental owners is that they're unwilling to maintain, and especially upgrade, their units for current tenants. In my experience, this complaint is valid. Refusing to repaint, recarpet, or upgrade the appliances for a great tenant makes no sense. After all, if you don't do it for the great tenant you already have, and that tenant gets frustrated with your lack of effort and moves out, you have to do the work anyway to be competitive in the rental market and attract a new, unproven tenant.

Unfortunately, in my experience, most owners and property managers will do almost anything for a new tenant, including making upgrades to the rental unit, while making the good, long-term tenants get by with the old carpet and appliances. Put yourself in the place of your long-term tenants. How would this situation make you feel?

REMEMBER

Often, rental property owners overlook punctuality when it comes to making repairs. Undoubtedly, you're a very busy person, so you can easily lose sight of the fact that your tenants are busy, too. If you tell your tenants that you'll call or meet them at a certain time, *do so* — or at very least call or text to let them know that you're running late. Require your property manager, maintenance personnel, and contractors to treat your tenants with the same level of respect.

Treating your tenants as important customers can be the best decision you ever make. When working with a tenant concern, ask yourself how you'd want to be treated. Treating your tenants in this manner makes your tenant relations much more pleasant, dramatically decreases turnover, and improves your net income — a win-win situation!

Consistent respect for privacy

The vast majority of tenants hate rental owners who fail to respect their privacy. In most states, the property manager or owner can enter the premises only with advance written notice or a tenant's permission, except in an emergency situation that's a threat to the property or a safety issue. Examples include pressurized water floods, fire, natural-gas leaks, or any other imminent threat to life or limb. In such situations, always leave a note indicating that you had to enter the rental unit; include the date and time as well as the reason.

The minimum required written notice of entry is 24 hours in most states. A few states require two days' notice, and many don't have any specific law; in the latter states, 24 hours is generally considered to be reasonable notice. (Go to `www.wiley.com/go/propertymanagementkitfd4e` to access additional information about state laws on required notification for entering a tenant's rental unit.)

REMEMBER

Legally, you may have to notify the tenant in writing only a few days before you want to enter the unit, but that notice isn't enough to maintain a positive and mutually respectful relationship with your tenants. Even though you own the property, the last thing you want your tenants to feel is that their home isn't really theirs. If you don't respect your tenants' privacy in their own homes, they'll be less likely to show respect for you or your property during or at the end of their tenancy.

Your request for entry should involve only normal business hours. A few state laws offer specific day and time parameters, but many don't. Without the guidelines, some rental owners feel that as long as they give proper legal notice, they

can enter the rental whenever they want. But I recommend limiting your entry to Monday through Saturday from 9 a.m. to 6 p.m. unless the tenant requests or voluntarily agrees to a different time.

Equal enforcement of house rules

A frequent source of tenant complaints is the property owner's failure to enforce reasonable *house rules* — the policies and regulations you set for your property. (Check out Chapter 12 for info on establishing house rules.) In fact, good tenants want and appreciate fair and reasonable policies and rules. They know that they'll be quiet and respectful of their neighbors, and they want to know that their neighbors must reciprocate. Establishing house rules for your properties and enforcing them fairly are part of the job of managing rental property.

Too often, I've seen owners who shy away from conflict, hoping that problems will solve themselves. To be a good owner and property manager, you must be professional about rule enforcement. In most instances, addressing problems quickly lessens their severity.

REMEMBER

If your rental property is within a homeowners' association, be sure to make the association house rules, policies, and regulations part of your rental contract, including making the tenant responsible for the payment of any fines or penalties that are assessed against you because of tenant misdeeds.

Fair rental rates and increases

Rent increases are always unpopular, and if you don't handle them properly, they can easily lead to increased tension, tenant dissatisfaction, and vacancies. No one likes to pay more, but of course, quality isn't cheap. Most tenants don't mind paying fair and competitive rent as long as they're convinced that they're receiving good value for their money.

REMEMBER

Although they may initially be upset with the increase, your tenants may be thinking that now you can finally address their peeling paint and missing window screens. Better yet, you might ask your tenants whether such issues exist before you impose the rent increase. If your rental property has these issues, and you want to increase the rent, address the problems right away to keep your tenants satisfied — and preferably do so before issuing the rent increase. You don't want to be improperly accused of increasing the rent in retaliation for tenants exercising their right to request repair of legitimate maintenance issues.

Increasing your price isn't a sin; after all, you're running a business. But common sense and prudence dictate that you explain to your tenants the reasons for the rent increase and what benefits are in it for them.

Recognizing the Ins and Outs of Renewing Leases

Tenants who renew their leases — thus locking in solid, long-term commitments — are a sign that you're doing a good job in your initial tenant screening and selection process and that you're keeping your tenants satisfied and meeting their needs. Lease renewals are one of your most important and productive activities as a rental property manager. Despite your best efforts, not all tenants are good candidates for lease renewal, of course, but renewing a lease with a current tenant clearly has a benefit over initiating a lease with a new tenant. After all, you have a track record with your current tenant; you know their rent payment history and whether they treat the property and their neighbors with respect. You can never be 100 percent sure of that kind of information when you start with someone new.

Also, your tenant knows what to expect from you as a property owner. They know your standards for maintaining the property, your interest in and response to their requests, your house rules (and whether you enforce them fairly), and the courtesy and respect you have for their privacy. Your tenant has a certain comfort level with you, and as long as you're willing to be competitive with your rental rate, it's in their best interest to stay.

WARNING

You need to evaluate the pros and cons of using leases versus month-to-month rental agreements for your rental property and your rental market. You might have many reasons not to renew the lease of a great tenant, particularly if that tenant suddenly becomes your worst nightmare; being locked into a fixed-term lease could make it much more challenging to regain possession of your rental unit.

The info in the following sections helps you keep the good tenants around.

Reducing your turnover

One of the most effective ways to be successful in the rental housing business is to retain those tenants who are your best customers. Reducing turnover not only keeps the rental income flowing, but also lowers your expenses. The tenant retention process really starts the moment the tenant moves in, and one fundamental step in that process is keeping track of when your leases expire.

WARNING

Although renewing leases can reduce turnover and provide many benefits, renewing a lease in a strong rental market may not be in your best interest, because a lease prevents you from raising the rent or changing any terms. Also, when a lease is in place, evicting a problem tenant is much more difficult. A tenant who wants

a lease renewal may seem to be a blessing, but you need to be certain that they treat your property properly and that the rental rate is competitive before signing a new lease extension.

Understanding the costs of turnover

When a tenant moves out, you incur extensive turnover costs for maintenance, painting, and cleaning, and you lose rent for every day the unit sits vacant. The greatest wear and tear to your units occurs during the moving process. So if you can minimize the number of times you change tenants, your property will hold up better over time and won't incur as much cumulative damage that makes it look tired, even with routine repairs. You can patch holes in drywall from furniture nicks, for example, but the result is never quite like new unless you have an exceptional contractor.

In addition to maintenance and repair expenses, tenant turnover adds to your advertising costs, and requires time and effort to show the rental unit and screen each applicant. And after all that, you still may not have a tenant who'll treat your property and the neighbors respectfully and be prompt with rent payments.

The following mini-table shows the typical costs for a turnover of a $2,000-per-month rental home that takes six weeks to rerent, along with charges for marketing and rental unit preparation.

Costs	Dollar Amount
Lost rent — 6 weeks	$3,000
Advertising, including ILS (Internet Listing Services) and signage	$300
Maintenance and repair parts	$500
Maintenance labor	$600
Painting	$900
Cleaning	$400
Total turnover cost	$5,700

Notice that the total cost is nearly three months' rent — and doesn't include new floor or window coverings, or any appliance replacements or unit upgrades. You may be able to deduct some of these costs from your tenant's deposit if they lived in the property for only a short time, but this analysis doesn't include your time if you self-manage or the turnover fees from your property management company to cover its out-of-pocket expenses. Only you can put a value on your time, but the typical property management company charges from 50 percent to 100 percent of the monthly rent as a leasing fee.

Convincing tenants to re-sign

To avoid turnover, you need to get tenants to re-sign the lease. Unless the lease contains an automatic renewal clause, it expires on the date specified. If you want your tenant to stay, don't be afraid to ask them to sign another lease that's effective when the current one expires. Contact your tenant at least 45 to 60 days before their lease expires.

TIP

Keep the following pointers in mind as you work to retain your good tenants and reduce turnover:

- **Plan your lease renewals so that you don't have vacancies during those times of year when rental traffic is slow.** Many rental owners blindly seek a 12-month lease renewal as though it's the only option. When you're reviewing your upcoming lease expirations for tenants whom you want to renew, why not try something different? Structure the new lease expiration dates in your favor. Avoid times when other leases are expiring, and select expiration dates that occur in more favorable seasons, when rental activity is strong in your local market. Most rental markets are traditionally slow from mid-November until mid-January, for example, so if you have a lease that's up in the second week of November, offer your tenant a 16- or 18-month lease, expiring in the spring.
- **Provide exemplary customer service at all times.** I find that the customer service practices of certain retailers keep me coming back again and again. You can have that same customer service attitude. Anticipate your customers' needs, and work to reinforce their positive image of your property and your ability to quickly respond to and competently address the legitimate concerns that they raise.
- **Contact your strong tenants before their leases expire, and discuss their satisfaction.** This practice gives you a pretty good idea of which tenants are strong candidates for lease renewal. These tenants have the most leverage because they're so desirable, so if you want to impress a quality tenant with your proactive customer service, I suggest contacting them by phone two to three months before the current lease expires. Briefly review the service requests they have made to date to confirm whether they're satisfied with your response. Always ask whether you can do anything else for the tenant. After they recover from the shock that you're calling and have a genuine interest in their needs, they'll tell you whether any problems exist so you can address those problems now rather than later. Most tenants are quite conservative in their requests.

TIP

If, despite your best efforts, you're unable to retain your tenant, try to reduce the loss of rent between tenants by advertising your upcoming available rental unit as soon as you receive formal notice that your tenant will be vacating.

WARNING

Low turnover is financially rewarding, but you should resist the temptation to renew the lease of a tenant who doesn't pay rent on time or who creates other problems. If you're uncertain but cautiously optimistic that your tenant will pull through some temporary issues and be the great long-term tenant you want, don't offer a lease. Keep the tenant on a month-to-month rental agreement until they can demonstrate enough stability to warrant a new lease. Also, in very-high-demand rental markets, you may find that sticking to month-to-month agreements gives the maximum flexibility without any loss in occupancy or average length of stay. Knowing your local rental market is important.

LISTEN TO AND CONSIDER YOUR TENANTS' REQUESTS

TRUE STORY

Throughout the 30 years that I've been a rental housing owner and manager, I've found many industry quirks that simply don't make any sense. One baffling mistake is the knee-jerk denial of a tenant's request to make needed upgrades during the tenancy. One of the most common requests is to replace the carpeting. The standard rental owner's reaction is that carpeting is changed only on tenant turnover. Why institute a blanket policy that upgrades can be made only between tenants when the goal is to keep the same tenants for many years? I recommend first evaluating whether the request is reasonable and whether the tenant created the poor condition of the current carpeting.

Clearly, you don't want to replace the carpet for a tenant whose pet or failure to vacuum routinely ruined it; those situations are rational reasons to deny the request unless the tenant wants to pay some or all of the cost. But if your inspection reveals a true need to replace the carpet, you need to make the proper business decision. If the current tenant vacates, and you have to replace the carpet to attract a new tenant, why not replace the carpet for your current good tenant? Too often, rental owners and property managers summarily deny upgrade or improvement requests from tenants without proper consideration. Rethink this standard practice, and give your good tenants a reason to stay. While you're at it, why not also offer assistance removing and returning the tenants' furniture? To protect yourself, be sure to only use personnel who are qualified and competent and have experience in moving, and have your tenant sign a damage waiver,

Offering incentives for tenants to stay

One of the main differences between rental property owners who enjoy their experience and former owners who tell horror stories is the ability to find and retain good long-term tenants. If you can master the skill of attracting, screening, and holding on to your best tenants, you'll find that being a rental property owner or manager may even be enjoyable. Offering incentives to your tenants is an easy way to get them to stick around.

TRUE STORY

One of our clients has a tradition of hand-delivering a box of chocolates to each resident around the Christmas holidays each year. These residents really look forward to this annual visit, and it allows the property owner to thank each and every tenant. It may be coincidental, but the rate of tenant turnover is much lower at these properties than is typical in the area.

TIP

One successful technique I've used to keep properties in positive cash-flow mode and to keep good tenants happy is a Resident Appreciation Day. Call your tenants in advance, and bring them some breakfast treats or juice and gourmet coffee to start their day.

You can show your appreciation in hundreds of inexpensive yet meaningful ways. The incentives you can offer are limited only by your imagination and your budget. Following are some ideas to help get those brain juices flowing:

- Coupons for free coffee, pizza, or other items
- Gift certificates to a popular local restaurant, the local mall, or a general merchandise store
- Movie theater passes
- Professional carpet cleaning or another type of pro cleaning service
- Two hours with your maintenance person for use at the renewing tenant's discretion (which can even involve moving furniture, hanging wall decorations, or doing anything else to make your rental unit the tenant's home)

Most good tenants like to have a landlord who demonstrates sincere concern for them and is willing to invest the time and funds necessary to make sure that they always have a well-maintained property. So why not make a few upgrades to the unit a couple months before the tenant's lease expires as a reminder that you care about the tenant's satisfaction?

TIP

When you offer incentives to entice your tenants to stay, develop several choices that reflect the current and expected market conditions. If the rental market is weak where vacancies are high and good tenants are at a premium, you need to be more generous than if you're in a tight rental market with very low vacancy. Offer

your tenants renewal incentives that improve your unit for future tenants. (Think hardwood flooring, mirrored closet doors, built-in water filter systems, security screen doors, ceiling fans, intrusion alarms, new kitchen countertops, new plumbing or lighting fixtures, or built-in microwave/stove hood units.). Another approach is simply to ask, "What would it take for you to remain with us for another lease term?

An excellent way to improve your property and allow your tenant to personalize their home is to give them a list of comparably priced service items or unit upgrades and let them choose which upgrade they want. You can have your contractor paint a few accent walls (in a tenant-selected color from a palette you control) or install quality flooring. Or you can give your tenant a few options for new, upgraded window coverings. This way, you send the message that you value their input and are striving to reward their business.

TIP

If your tenant's appetite for upgrades in their rental unit is greater than your budget, maybe you can agree to provide one item while negotiating a lease renewal at a higher rental rate if you also provide another item. Maybe you think that a new refrigerator is appropriate, but the tenant is determined to have new flooring as well. You can take the cost of the new hardwood flooring and have the tenant pay for a portion of the cost by amortizing (having the tenant pay a small amount per month) over the term of their lease renewal period. This way, the tenant gets both the new refrigerator and hardwood flooring, and you have some additional rent to cover a portion of the cost of improving your rental unit.

In a competitive rental market with increasing rents, most tenants who intend to stay are glad to renew their current leases or even to sign new leases at higher but still reasonable rents. Perform a rental market survey before setting the rent for any extended-term lease renewals so that you'll know your rental rate is fair to both you and the tenants. You may even want to share the results of your market rental survey to both save your tenant some time and to show that you were fair and reasonable in setting the new higher rent.

WARNING

Renewal incentives are great if they make sense, but some creative, well-meaning ideas have frightening and/or unintended consequences. I once saw an incentive for one free late rent payment if a tenant renewed the lease. Is that really something you want to encourage? Another head-scratcher is an offer to return the tenant's entire security deposit upon lease renewal if the tenant has a history of prompt rent payment. My advice is that you never, never, never (did I mention never?) give back the security deposit until your tenant vacates the property! I can tell you hundreds of stories about the problems of not having a security deposit to keep tenants honest and responsible. That small amount of money is your best insurance against damage to the rental unit. After all, even the best tenants are careless when they know that you aren't holding any security deposit.

Following up with tenants after move-out

Sometimes, good tenants leave, which is out of your control. Just make sure that you maintain a professional relationship with them, because you never know when they may refer you to a co-worker, friend, or family member.

TIP

The good tenants who need to relocate even though they were very pleased with their rental unit and your management are the best ones to leave feedback on landlord rating or review sites. The vast majority of reviews left on these sites are very one-sided and negative, and typically are left only by former tenants who feel that they were treated unfairly. Some constructive criticism can be helpful, but disgruntled former tenants may be seeking revenge for a perceived injustice, such as deductions from their security deposit that they feel are unfair or excessive. The proliferation of review sites and the strong bias toward negative reviews makes the whole concept of questionable value, but you should still respond to negative reviews if the site allows you to do so.

One of the most common reasons why a tenant leaves or doesn't renew a lease is their intention to purchase a home. Although homeownership is a very worthy goal, you may want to advise your tenant about other options. If you want to entice them to stay, you might offer a lease option (see Chapter 22) or a long-term lease at a fixed amount that provides rent stability. Several calculators are available on the Internet to help people determine whether they're better off renting or buying, given their overall financial situation. Let tenants know their options without discouraging them from buying if that's really best for them.

TIP

Make sure that departing tenants complete tenant exit surveys. This survey may not help you retain your moving tenants, but asking some basic questions about the reason for their move gives you valuable, candid feedback on what they liked and disliked so that you can make appropriate changes for the future. When you seek their feedback, why not ask them to please refer other good tenants (like themselves) in the future?

IN THIS CHAPTER

- Knowing how to handle typical tenant problems
- Considering options other than eviction
- Navigating your way through the eviction process
- Being prepared for situations beyond the norm

Chapter 15
Dealing with Problem Tenants

Although the proper tenant screening and selection techniques greatly improve your success in picking good tenants, they aren't a guarantee. At some point in your rental property management tenure, you're sure to come across a problem tenant or two. Some tenants avoid paying rent, disturb the neighbors, damage property, or keep a growing collection of inoperative cars on the front lawn, and you need to take steps immediately to remove these tenants and replace them. But other tenants — like the one who pays the rent a few days late every month, the one who fails to perform even basic housekeeping, or the one who sneaks in an animal even though pets aren't allowed — are more subtle in terms of the problems they present, and their behavior may not warrant eviction.

This chapter gives you tips for handling some common tenant problems and suggests valuable alternatives to eviction. It also prepares you for some scenarios you may encounter so that you'll know right away how to deal with them.

Recognizing and Responding to Common Tenant Problems

The level of response you take with a problem tenant depends on how severe the problem is and how frequently it occurs. Some issues — including nonpayment of rent, additional occupants who aren't on the rental contract, noise, and disruptive behavior — are breaches of the rental contract and clearly call for serving the appropriate legal notice for the situation at hand.

WARNING

Documentation is critical whenever you have a problem with a tenant. Even minor problems are worth documenting because over time, they may add up or increase in severity. If you need to evict a tenant, you must have written documentation of as many elements of the entire situation as possible, because you'll likely have the burden of proof if you end up in court. Courts are often empathetic with tenants, and unless you can show a consistent pattern of rental contract breaches over time, the courts will just give the tenant a warning, and you'll have incurred needless legal expenses.

The next few sections highlight several of the most common problems you may experience with your tenants and how to handle them.

Late or unpaid rent

One of the toughest issues you'll encounter is how to deal with a tenant who consistently pays the rent late or, worse, doesn't pay it at all. In other respects, the tenant may not create any problems, but they just can't seem to comply with the rental contract's payment requirements. You may have to serve a notice of nonpayment of rent to get the tenant to pay — and even then, they may not include the late charge with their payment. In my experience, this nagging problem doesn't go away unless you put a stop to it.

When you're faced with a tenant who just can't seem to get their rent payment in on time, you have many factors to consider (such as whether the tenant is creating any other problems for you or other tenants), but the strength of the rental market is usually the most important issue. If the market is a renter's market, and you know that finding another tenant will be difficult, you may be willing to be more flexible.

Specific legal notices are available in most states (from National Apartment Association [NAA] affiliates) to deal with the issue of nonpayment of rent. But you should document other violations of the rental contract in writing by using a lease or rental agreement violation letter, which you can access by going to `www.wiley.com/go/propertymanagementkitfd4e`.

REMEMBER

Don't ignore the problem of a tenant who consistently pays late. You're not doing your tenants any favors by allowing them to fall behind on their rent, which is probably their largest monthly financial commitment. Clearly inform them in writing that they have breached the rental contract, and be sure to do so each and every time they pay late. If you fail to enforce timely rent payment obligations or your late charges, the tenant can later argue that you've waived your rights to insist on compliance with the contract's rent payment provisions or to collect future late charges. Inform the tenant in writing that chronic late payments are grounds for eviction, even if you're not necessarily willing to go that route just yet. (Chapter 13 describes how to handle late payments and late charges.)

WARNING

THE CHALLENGES OF COVID-19

The COVID-19 pandemic created unique challenges for everyone in the residential rental housing industry (property owners, property managers, and tenants), as historically, certain economic cycles have led to serious rental collection issues. This most recent situation was the first one involving a national mandated closure of most businesses and widespread loss of employment and wage earnings for many tenants.

Although the impact varied widely from tenant to tenant and from state to state, property owners experienced significant loss of rental income and were unable to pursue timely rental payments due to state and federal eviction moratoriums. In some cases, these moratoriums didn't require proof of hardship but were applied to all residential tenants. Consequently, in spite of federal stimulus checks, and federally enhanced unemployment for those out of work, some tenants were unable to pay their rent. However, many property owners and property managers have seen some opportunistic tenants, some who may not have been adversely impacted by COVID-19 and even saw an increase in their overall income during the pandemic, simply chose to "skip" on the past-due unpaid rent.

The long-term impact of this unilateral governmental action that has negatively affected many large and small residential rental property owners is unknown at this time. The federal government through the CARES Act has offered state, county, and local municipalities grants that can be used to assist many tenants in paying back some or all of their past-due or delinquent rent. However, only in California, Governor Newsom has authorized the use of state funds to pay 100 percent of the past-due or delinquent rent for all residential tenants.

There will likely be many lessons learned from the COVID-19 pandemic, but overall, it is worth noting that nationally, it seems that residential rental property owners fared much better than the owners of any other types of income property. The impact will likely be much greater demand and lower rates of return on investments in residential rental properties compared to the higher risk associated with commercial and retail and hospitality income properties. (See *Real Estate Investing For Dummies* for more information.)

Additional occupants

Tenants frequently abuse the guest policy by having additional occupants in their rental units for extended periods. But you may have trouble determining the difference between a temporary guest and a new live-in occupant. Be sure that you have specific guest policies as part of your rental agreement or house rules. If you suspect that your tenant has added another live-in occupant, talk to them to find out what's going on. Point out your guest policy, but be sure to get the tenant's story before jumping to conclusions. This practice is sound, not only because it's considerate, but also because you need to avoid claims of discrimination, particularly if the additional occupant is younger than 18 or a person any age who needs assistance due to a disability.

In the case of minors (in which custody is an issue), I suggest that you add them to the lease or rental agreement; they really aren't guests, but family members. Because legally, they're not adults, they don't need to complete a rental application or go through your prospective tenant screening process. If the addition of the minor causes the household to exceed your occupancy limit, have a written policy for handling the situation differently from the addition of an adult. (See Chapter 11 for suggested policies.)

If your tenant doesn't comply with your guest policy, immediately send them a lease or rental agreement violation letter indicating that the additional occupant must be formally added to the rental contract as a tenant or must leave as of the notice's expiration.

REMEMBER

All new adult occupants must complete a rental application, go through the tenant screening process, and sign the rental contract if approved. If the tenant fails to cooperate, you may need to take legal action.

Go to `www.wiley.com/go/propertymanagementkitfd4e` for a lease or rental agreement violation letter, which you can modify for your needs.

TIP

A common guest policy in the rental housing industry is to allow guests to stay in the unit for up to 14 consecutive days. But savvy tenants ask their guests to leave for a day or two and then return. Although this policy is tough to enforce (and likely unenforceable if there is a shared or joint custody arrangement with one or more minors), I suggest modifying it to limit visits by the same guest to no more than 14 days in any 6-month time frame. You should enforce this policy uniformly to the best of your ability to avoid allegations of discrimination.

Proving occupancy can be very difficult, and you need to be careful not to violate the tenant's rights of privacy and freedom of association, including the right to have short-term guests. Possession of a key, contributions to the rent payment, making maintenance requests, receiving packages or nonjunk mail, having

furniture or pets in the rental unit, or keeping a vehicle on the property for excessive periods may offer proof that a guest intends to be a full-time live-in tenant.

WARNING

You must be careful when determining whether an additional occupant violates a rental contract or guest policy if that person might qualify under fair-housing law as a *caregiver,* which is a disability accommodation. Typically, a caregiver isn't on the rental contract, isn't responsible for rent payment, and can be a family member. Caregivers must comply with house rules, and you can screen them for behavior issues but not for credit, because they aren't responsible for rent. Don't have caregivers sign the lease. Instead, have them enter into a caregiver agreement indicating that they're living on-site only for the purpose of performing assistance services and that they agree to follow the house rules, except that they're exempt from senior housing age restrictions. Seek the advice of legal counsel if you have any questions.

Inappropriate noise level

Unreasonable or excessive noise is likely the most common complaint that landlords and property managers receive from tenants, and it's easy to downplay the seriousness of the issue — especially if you live across town! But unreasonable or excessive noise is a nuisance by law in most areas. You don't want a few noise complaints to spiral so that a tenant takes official action against you or refuses to pay rent because of their "loss of quiet enjoyment" of the property. Many jurisdictions have noise ordinances, and some allow action such as fines or violation notices to be taken against you as well as your tenant. Tenants may also find that their local small-claims court is willing to give them a healthy rent credit for their loss of sleep.

You usually hear about a noisy tenant from one of the tenant's neighbors. The neighbor may or may not have made their concerns known directly to the noisy tenant. If they have, and the noise continues unabated (or the neighbor isn't willing to take any action), as a first step, you should contact the tenant, explain that there's been an anonymous complaint, and inform them that you expect them to live quietly with their neighbors. Confirming the substance of your conversation in a follow-up letter to the noisy tenant is wise.

If the unacceptable noise continues, tell the complaining tenants that they can always contact law enforcement and file an official complaint as soon as the noise level becomes a problem. Then they should let you know that they've done so.

TIP

Have a policy that requires all tenant complaints regarding neighbors — especially noise — to be in writing. Neighbors usually don't want to go to court to testify; they just want you to solve the problem quickly and allow them to keep their anonymity. But if the noisy tenant disputes the charges, the courts are

usually reluctant to accept your unsubstantiated testimony. A report from law enforcement and a written complaint made simultaneously by a neighbor carry a lot of weight. If tenants don't send you a written complaint, write them, stating that you're still waiting for them to document the problem, that you can't do much without their cooperation, and that you'll recount what you understand they told you and correct any mistakes in a responsive letter. If tenants fail to provide a written complaint, this confirmation letter at least has some value. Although it would be hearsay and inadmissible as proof that the noise occurred, it may be admitted in court to show that management received complaints.

Unsupervised children

Under federal law, with the exception of the limited number of senior housing properties certified by the U.S. Department of Housing and Urban Development, you must accept children at your rental property. Unfortunately, one of the toughest dilemmas you'll face as a property owner or manager is dealing with a tenant's unsupervised children on the grounds of your property. If you don't do anything, and someone gets hurt, you may be sued for failing to take reasonable action. But if you don't handle the matter properly, the tenant may claim that you're discriminating against families with children. In this case, you need to be able to prove that you acted reasonably and consistently.

TIP

If you become aware of an unsupervised child at your property who is in a potentially dangerous situation, immediately contact the parent or caretaker — or, if the situation is serious, escort the child or children home to her parent(s). Take the child home again if the problem happens a second time, but also send a letter to your tenants warning them of the seriousness of the matter. If the written notice isn't effective, you can always call the police or social services while advising your tenants, in writing, that an eviction may be warranted. Diplomacy is essential here, as nothing can hit a nerve as quickly as someone accusing a child of misbehaving.

REMEMBER

You can't require general supervision of children, but you can address any health and safety issues or lease violations for disturbance of other tenants. If your tenants fail to supervise their children properly, and the children damage your property, don't just talk to the children about the problem. Immediately contact the adult tenants and officially advise them of the health and safety issues or lease violations, stressing that they're responsible for the actions of all household members and guests and that disturbances or property damage by tenants of any age are unacceptable. Communicate in writing or provide a letter confirming your conversation. This kind of action is usually sufficient, but if the damage is severe or if it continues, notify the tenants in writing, bill them for the damage, and warn them that any continued problems will result in eviction.

The key issues are health and safety, disruption of the community, or property damage, not the ages of the people involved. Be very careful about the language you use when talking with the parents or guardians about their minors; some people can be very defensive or will immediately deny any accusations. Having written verification from another tenant or disinterested party can be helpful.

Exploring Alternatives to Eviction

Evictions are both expensive and emotionally draining. They can also be costly in terms of lost rent, legal fees, property damage, and turnover expenses, and they can give your rental property a negative reputation among good tenants in the area. Always consider the costs of any decision you make — in dollars, in reputation, and in tenant relationships. Be sure to evaluate each situation carefully and turn to eviction only as a last resort.

REMEMBER

When you're looking for an alternative to evicting a problem tenant, such as the solutions presented in the following sections, don't underestimate the importance of communicating with your tenant. Be sure to document any conversations you have or agreements you reach in writing, and make sure that both you and the tenant sign and keep a copy of the paperwork.

TIP

If the most likely outcome of an issue with a tenant is an expensive, time-consuming eviction, do your best to minimize or cut your losses. A court judgment against a tenant without any assets doesn't help your cash flow, but a nonpaying or bad tenant is much worse than no tenant. Your primary goal should be to regain possession of the rental unit and find a new tenant as quickly as possible.

Negotiating a voluntary move-out

Although you may feel strongly that your tenant should keep up their end of the rental contract, you may come out ahead by avoiding legal action and not having to worry about that tenant anymore. You may be able to negotiate a voluntary move-out with your tenant, in which you forgive the unpaid rent if they agree to leave by a mutually agreed-on date. Another approach is to agree to refund the tenant's full security deposit immediately after they vacate the property (as long as no significant damage has been done to it).

Some property owners will even offer small amounts of cash to expedite the return of possession of their rental unit. This approach is commonly referred to as *cash for keys*, and it sounds like some amazing new solution to all your problem tenants. But you need to be careful: Some courts have found that offering a tenant cash to

vacate is harassment and really a self-help eviction, which violates many state landlord–tenant laws. Be sure to consult your legal adviser before initiating any cash for keys arrangement with one of your tenants, even if they approach you first.

REMEMBER

If you agree on a voluntary move-out, don't count on a verbal agreement. Make sure to get it in writing.

Using mediation or arbitration services

If you aren't able to reach an agreement with your tenant about a voluntary move-out, consider taking your dispute to a neutral third-party mediation or arbitration service.

Mediation is an informal opportunity for both parties to resolve their disputes with the assistance of a local mediation group at little or no cost. It typically involves only the parties to the dispute (you and your tenant).

Often confused with mediation, *arbitration* is legally binding and enforceable, and can be a relatively quick and inexpensive alternative to litigation. It often involves attorneys, witnesses, and experts in addition to you and your tenant.

Many organizations offer both mediation and arbitration services, so if mediation doesn't resolve the issue, you can always try arbitration. Check with your local bar association for referrals.

Taking your tenant to court

Rather than evicting them, you may want to consider taking your tenant to small-claims or municipal court. Rental property owners in many states can turn to small-claims or municipal courts to resolve the issue of the rental unit's possession in an eviction. Courts with limited jurisdiction are used to resolving landlord–tenant matters restricted to monetary demands. The jurisdictional limits for these courts range from $2,000 to $15,000, but the majority are $5,000 or less. Consult your local court for its limits.

The popularity of court TV shows means almost everyone is familiar with the roles of the participants in, and the procedures of, small-claims courts. Although this knowledge can make the participants more comfortable with the format, note that most small-claims and municipal court proceedings aren't as entertaining in real life; on TV, matters are handled quickly and efficiently, and edited down to a few minutes. If you plan to head to court with your tenant, don't be afraid to be overly prepared. Consider using labeled exhibits for all your documentation in a

chronological order that supports your claim. Stick to the main points, however, and don't get bogged down in the details of every communication; the patience of the court is often short. Be sure to bring copies for the court and your tenant.

Giving 'Em the Boot: Evicting a Tenant

Some tenants just don't pay their rent; others violate the rules or are involved in criminal activities. In these situations, after you've explored your other options, you may have no reasonable alternative to eviction. The eviction process can be intimidating and costly, but keep in mind that allowing the tenant to stay only prolongs the problem.

The eviction process varies greatly from state to state, and many attorneys who specialize in representing rental property owners offer guidebooks that outline the specific legal steps for eviction actions in the area. Your local Institute of Real Estate Management (IREM) chapter or NAA affiliate can provide attorney references; you can access contact information for both groups at `www.wiley.com/go/propertymanagementkitfd4e`.

Serving legal notices

To evict a tenant, you need to follow applicable law as well as the rental contract. For a fixed-term lease, some states don't require service of a notice of nonrenewal. If your rental contract requires the resident to give you notice to leave at the end of the lease term, most courts interpret that duty to be reciprocal, and you have to give the resident notice to obtain the legal right to file an eviction upon lease expiration. Even if a notice isn't legally required, it's wise to inform the resident in writing that the lease won't be renewed in a reasonable time before it expires. Check with landlord–tenant legal experts in your area; some jurisdictions will require you to inform long-term tenants of the specific reason why you won't be renewing their lease or rental contract.

If the tenant stays beyond the lease's expiration, and you accept rent, a month-to-month tenancy agreement is created on the same terms as the lease. In a month-to-month tenancy, you have to terminate the tenancy by giving an appropriate, legal notice of termination. Generally, you can terminate month-to-month tenancies with written 30-day notice, although some states and some subsidized programs require a longer period.

Although the terminology varies from state to state, three other basic types of legal notices are required, depending on the circumstances:

- **Pay rent or quit notices:** These notices are given to tenants who haven't paid rent and require tenants to pay the rent or move out. Tenants are typically allowed 3 to 10 days to pay in full, but some jurisdictions allow up to 30 days. Be careful not to include late fees or other nonrent charges in your notice because many courts will determine that the notice overstated the rent due, and you may lose your case.
- **Cure or quit (or perform covenant or quit) notices:** This paperwork is given to tenants who violated one of the terms or conditions of the rental contract. It gives tenants a limited number of days (determined by state law) to cure the violation or vacate the premises; if they fail to do so, they're subject to an eviction action. The most common violations are to remove an unauthorized pet or occupant or to pay a fee other than rent, such as late charges, returned-check fees, or utility bills.
- **Notice to quit or unconditional quit notices:** These documents are the most severe types of notices, requiring tenants to vacate the premises without the opportunity to cure any deficiency. Most states discourage the use of these notices unless tenants are conducting illegal activity, have repeatedly violated a significant term or condition of the rental contract, or have severely damaged the premises.

Filing a formal eviction action

If your tenant doesn't cure the violation or leave the property after receiving the appropriate legal notice, they aren't evicted automatically. Instead, you must begin a formal eviction process, which involves these steps:

1. **You file the required forms in court and arrange to have the tenant served properly with a summons and complaint.**

   The complaint is usually a preprinted form, and you can seek only unpaid rent and actual damages. Many times, daily rental damages continue to accrue during the pendency of the action, and they can be added to the judgment granted at the end of the court process.

REMEMBER

   Serving a legal notice isn't simply a matter of mailing the notice or slipping it under the tenant's door. You must have an authorized person attempt to deliver the legal notice to the tenant physically, face to face. If the notice can't be delivered directly to the tenant, there are usually procedures for substitute service or posting and mailing pursuant to a court order. Every state has specific rules and procedures as to what constitutes *proper legal service,*

including who can serve notices, the method of delivery, the specific parties who can be legally served, and the amount of time the tenant has to respond to the legal notice. Check with an attorney for the requirements in your area.

2. **By law, a trial date is set, and your tenant has a certain number of days to file an answer to your summons and complaint.**

   Tenants may deny the allegations you've made in your eviction action or claim that they have an *affirmative defense* (a legal justification for their actions). A tenant may deny your allegations, for example, if they have a canceled check showing that the rent was paid and your records are in error.

   Frequently, tenants know that they've materially breached their rental contracts and leave the premises voluntarily. Sometimes, they may settle out of court.

REMEMBER

   If your tenant settles informally, you must dismiss your eviction action in court, because doing so is the proper way to treat your tenant and also preserves your reputation with the court. After all, courts have limited resources and don't respond well to parties who resolve their matter and fail to file a timely dismissal. Also, failing to dismiss an eviction action can result in a negative credit standing for your tenant.

3. **If the tenant doesn't file an answer in a timely manner, the eviction action proceeds to court without the tenant.**

   This scenario is known as an *uncontested eviction.* The court requires you to prove your case, but the tenant isn't there to respond to or deny your charges. Typically, you can prevail in this situation as long as you have good documentation.

4. **If your tenant files an answer and appears at court, each party receives the opportunity to present its evidence before the court makes a ruling.**

   This scenario is known as a *contested eviction.* In the alternative, the parties can enter into a formal written settlement right before trial. Then the judge signs the settlement, and it becomes a court order. If a settlement isn't reached, the parties proceed to present evidence in the courtroom. Generally, if you're prepared and present the facts professionally in a well-supported case, you can win. But the courts can be very harsh if you acted illegally or in a retaliatory or discriminatory manner toward the tenant.

   You may also have to show that you responded properly and promptly to any complaints made by the tenant during their tenancy, especially those that involve allegations of health and safety violations or uninhabitable conditions at your property. I suggest that you bring your maintenance and service requests and the support documents showing that you responded promptly and resolved all reasonable complaints made by your tenant.

REMEMBER

A tenant may be able to argue that they're entitled to additional time to work out a payment plan for the unpaid rent or that they have a hardship that requires the court's leniency. Although doing so is not legally required in most states, courts have been known to allow a tenant an extension because of inclement weather, an appeal of the ruling, or time to allow for the improvement of the tenant's health or other personal situation.

TIP

Some jurisdictions show extra leniency during the fall and winter holidays, so you may want to be diligent to get your matter to court quickly if the holidays are approaching.

5. **If you win the eviction lawsuit, you present the judgment to local law enforcement.**

   Law enforcement gives the tenant one final notice before going to the rental unit and physically removing the tenant and their possessions. Arrange to have someone meet the law-enforcement officers at the property at the designated time, and have the locks changed after you receive legal possession of the unit.

Following the do's and don'ts of the eviction process

Although the eviction process is rather straightforward in most areas, you still want to ensure that you don't do anything to jeopardize the proceedings. I can't guarantee that the process will run smoothly, but if you keep the following do's and don'ts in mind, you can alleviate many headaches:

- **Do use an attorney.** The filing and serving of eviction actions are governed by very precise, detailed rules. Always use current industry-standard forms from your local NAA affiliate; these forms are reviewed to comply with landlord–tenant laws. The smallest mistake can result in delays or even the loss of your case on technicalities, even if the tenant failed to pay rent or otherwise violated the rental contract.
- **Don't fail to respond properly to maintenance requests.** Even if you're in the middle of an eviction process with a tenant, you're *always* responsible for maintaining the premises properly. If someone gets hurt because of your failure to keep the property in good condition, you can be sued.

  Tenants and their attorneys are very sensitive to maintenance issues. Any failure to respond to a tenant's request for maintenance in a timely manner can be used as a defense in the eviction action. Be prepared to show the court proof of your timely response and the current status of any pending or protracted repairs due to issues with accessing the rental unit or obtaining parts and supplies.

» **Don't get so emotionally involved in an eviction process that you make an irrational decision that could be construed as a self-help eviction.** A *self-help* or *constructive eviction* is a situation in which the owner takes illegal actions to force the tenant to vacate the premises. Veteran rental property owners love to tell stories about the good old days when they could just change the locks or shut off the electricity or water to encourage a tenant to vacate the premises. But today, no states tolerate these aggressive tactics, regardless of how bad the tenant may be. In many states, even reducing or eliminating free services such as cable TV can create a serious problem. The court might consider such a move to be an illegal self-help measure, and the tenant can sue for significant penalties. This can also include a cash for keys offer, as discussed earlier in this chapter.

Collecting judgments

When you win in court, and your tenant owes you for unpaid rent, damages, or legal fees, you've received a *money judgment* against the tenant. But the judgment isn't worth much unless you're able to collect. If you know that the tenant has a job or other unencumbered assets, in most states you can obtain a court order to garnish their salary or have local law enforcement seize their assets and sell them, with the net proceeds of the sale going to you.

TIP

The majority of problem tenants aren't easy to locate, so your best bet may be to hire a licensed collection agency to attempt to locate the tenant and collect your judgment. These agencies are usually paid on a contingency basis and receive a portion of the collected amount, typically ranging from a third to half of the amount. Sometimes, they add any out-of-pocket or hard costs of collection to the amount they retain. Although you may want to make your own efforts to enforce the judgment, remember that collection agencies' success rates and fees are often tied to the age of the bad debt. So the sooner you submit the judgment for collection, the easier it is for the agency to collect, lowering the fee you have to pay.

REMEMBER

Your success in collecting judgments often depends on how hard you worked throughout the tenancy. The rental application typically contains valuable information for a collection agency, including the tenant's Social Security number (SSN) or Individual Taxpayer Identification Number, previous addresses, current and previous employment information, banking and credit card accounts, vehicle information, and telephone numbers for their emergency contact. If you require a tenant to complete this application, you verify its accuracy, and you keep the info updated, you have a great place to start hunting the tenant down for collections.

Handling Unusual Tenant Situations

After a few years as a rental property owner, you may begin to think you've seen it all, but new and interesting twists always arise to keep rental management challenging. Knowing how to handle these unusual — yet surprisingly common — situations can make life much easier.

Bankruptcies

One last-ditch effort some tenants make when they're in financial trouble is to file for bankruptcy protection. There are several types of bankruptcies under the federal bankruptcy laws, but you'll likely encounter only two. The most common is Chapter 7, in which debts are eliminated after a percentage of the amount owed is paid to all identified creditors. But you'll also encounter Chapter 13, in which the debtor ultimately repays all debts in full, but the court approves a reorganization plan that allows the debtor to pay over an extended time frame.

Traditionally, many rental owners suffer severe financial blows when tenants file bankruptcy during the eviction process, because doing so institutes an *automatic stay,* which immediately stops any lawsuit involving an eviction action. Then the rental owner must petition the federal bankruptcy court for permission to proceed with the eviction by requesting a motion for relief from automatic stay, which can delay the eviction process for several days to a few weeks.

The Bankruptcy Abuse Prevention and Consumer Protection Act of 2005, however, gives rental property owners some relief. Under this act, you can proceed with your eviction if you already have a judgment for possession when the tenant files for bankruptcy. The law also provides that the court can lift the stay in 10 days if you can show that the tenant is using illegal controlled substances or endangering the property.

REMEMBER

Severe legal penalties exist for rental owners who violate an automatic stay, so as soon as you become aware that your tenant filed bankruptcy, stop any collection or eviction efforts, and contact a landlord–tenant legal expert. Your legal counsel knows what steps to take in each situation and can file pleadings with the federal bankruptcy court requesting a motion for relief from automatic stay to proceed with the eviction, if necessary. ***Note:*** Even if you routinely handle your own legal work, have an attorney handle all tenant bankruptcy matters; bankruptcies are complicated, and you need good legal advice.

Illegal holdovers

Rental owners have a rough time when a tenant fails to vacate the property as mutually agreed in the rental contract. Unless you accept rent, tenants who continue to live at your property are referred to as holdover tenants. Many states require you to give holdover tenants a legal notice to vacate immediately; other states allow you to proceed directly with an eviction action.

A common trick used by savvy tenants (or advised by tenants' rights attorneys or eviction delay firms) is to submit the rent payment and hope that it's cashed so that any outstanding legal notice is voided or a new month-to-month rental agreement is created at the lease's expiration. If you have several tenants who mail or drop off the rent, you may be handling quite a few checks at the same time. To avoid this common mistake, you need to be extra careful that you don't deposit the delinquent tenant's rent check inadvertently. Make a copy of the check, and return the original with a letter indicating that you'll be forced to proceed with eviction if the tenant fails to move out.

REMEMBER

If you accept rent, you agree to a continuation of the tenant's rental, generally on at least a month-to-month basis, unless state law indicates differently.

Broken rental contracts

Although you may occasionally face a tenant who refuses to leave as agreed, you'll surely encounter one who leaves before the expiration of the rental contract and doesn't want to pay the balance of her financial obligation to you. In practically all states, you don't have the right to demand that the tenant pay the rent due each month for the balance of the rental contract.

So what can you do? First, confirm that the tenant has indeed given up their right of possession. Then take reasonable steps to mitigate or limit the ongoing rent and other charges to the departed tenant by preparing the unit for rerental. In most states, you must make a reasonable effort to rerent the property promptly, including using the advertising and other standard rental marketing methods you'd routinely use for any vacant rental unit. If you don't make reasonable efforts, the tenant may be released from any further legal obligation to pay the balance of rent owed under the rental contract.

REMEMBER

Market this rental unit as you would any other unit. You don't need to lower the rent, lower your tenant selection standards, or give this rental priority over any other available unit. You can't be vindictive and attempt to make yourself rich, either.

Tenants frequently dispute whether your efforts were reasonable in mitigating their financial obligations. If challenged in court, you need to show that you

maintained detailed records clearly indicating the actions you took to rerent the property, including dated copies of all advertising or Internet listing services you used, as well as any documents such as applications or rental contracts with the new tenants. The tenant generally has the burden of proof, but courts are often sympathetic to tenants who have hardships, so be prepared.

Tenants sometimes have legitimate reasons for breaking their rental contracts, and in these situations, they don't have any further obligations to you. These legitimate reasons are all subject to state and local laws but can include the following:

- Harassment of the tenant by the property owner or property manager
- An uninhabitable rental unit
- Violation of a significant rental contract condition

Some state or federal laws allow the tenant to leave under certain specified circumstances, such as job transfers, military transfers, or health reasons. Make sure that you know the laws that apply in your area.

Go to `www.wiley.com/go/propertymanagementkitfd4e` to access state-by-state information on a landlord's duty to rerent the rental unit.

Assignments or subleases

A tenant may approach you and request the right to assign or sublease their interest in the rental unit.

If you allow an *assignment*, the new tenant takes over all aspects of the original tenant's rental contract, and you can take legal action directly against the new tenant.

Subleases are a relationship solely between your tenant and the new tenant. You can't sue the new tenant directly for unpaid rent or damage to the property; all you can do is go after the original tenant.

Tenants usually request the right to assign or sublease only when they must suddenly relocate for personal or professional reasons. Typically, rental contracts prohibit subleases because you want to have a direct legal relationship with the occupant. Assignments are superior to subleases because you do have the opportunity to screen and approve the new tenant's application. Note that a prohibition of assignment or subletting is likely to affect your ability to pursue a tenant for breach of lease. Most judges expect that you won't refuse any reasonable offers to allow tenants to comply with their obligations through a third party.

TIP

Subleases needlessly complicate the landlord–tenant relationship and prevent you from taking direct legal action against the occupant of your premises. If the proposed occupant meets all your rental criteria, propose terminating the current rental contract and entering into a new one. This approach also allows you to terminate any ongoing relationship with the outgoing tenant.

Departing roommates

On occasion, you may receive a notice that a tenant or roommate will be leaving the property in the middle of a lease. The departing tenant usually requests a partial refund of the security deposit, even though not all the people on the rental contract are vacating the premises. You should retain the entire security deposit until all contracted occupants have vacated the property. (See Chapter 16 for more on dealing with security-deposit disputes.)

If one tenant chooses to vacate early, the remaining tenants need to resolve any security-deposit issues themselves. If a new roommate is moving in, for example, that person can inspect the premises and pay the departing tenant an agreed amount for their share of the security deposit. Or the remaining tenant can reach some other fair and equitable agreement with the departing tenant.

WARNING

If one tenant leaves early, you may also have to reevaluate the current situation with the remaining tenants to find out whether they qualify. If the vacating tenant contributed to the rent and is vacating, that income can no longer be counted toward the household income. If the income drops below your requirements, the remaining roommates must move out as well or bring in a new roommate whom you can approve in a reasonable amount of time.

If the rental contract is going to change, require the departing tenant to complete a deposit assignment and release agreement (available at `www.wiley.com/go/propertymanagementkitfd4e`). This document releases you from liability.

Domestic problems

Couples (or any combination of two or more people) who rent the premises together and have domestic disputes provide a tough challenge for rental property owners. As with disputes between neighbors or roommates, you need to avoid getting involved. You lack the authority to side with one party or the other, so stay neutral, encourage the couple to resolve their problems themselves, and continue treating all parties fairly and equally.

Unfortunately, some disagreements between tenants involve domestic violence, and you may receive a request from one occupant to change the locks or remove one of the tenants from the lease. Don't agree to any such changes, regardless of

the strength of the tenant's argument, without first seeking legal advice and requiring a copy of a restraining order or other appropriate court order from the requesting tenant. In some circumstances, you may be able to avoid an argument about changing the locks, because the other party may be willing to voluntarily leave or allow the changing of the locks. But to cover yourself, even if the other party is cooperative or isn't disputing the matter, insist on a verifiable letter or agreement documenting the other party's consent. Be careful not to discriminate against the victim of domestic violence by evicting them, especially if the perpetrator is no longer in the rental unit and doesn't return to the property.

REMEMBER

Some state laws allow victims of domestic violence to give notice and breach their lease without penalty upon presentation of either a court order or a police report.

The federal Violence Against Women Act of 2005 prohibits public housing agencies and rental properties that accept Housing Choice Vouchers from denying an applicant who was a victim of domestic violence or stalking. Nearly 30 states have passed legislation protecting women in similar situations, so check with local legal counsel if you face a related situation.

Tenant deaths

If you have reason to suspect the death of a tenant who lives alone, try calling the tenant or banging loudly on their door. Check with any known family members or the neighbors, and call the tenant's place of employment and the emergency contact number from the rental application. If you still aren't sure, exercise your right to inspect the rental unit in an emergency, or contact the police or fire department.

When officials have confirmed the death and removed the body, you must immediately take reasonable steps to safeguard the deceased tenant's property, including denying access to the unit except for obtaining limited personal effects for a funeral. Secure the unit, and allow access only to legally authorized people or members of law enforcement. If you have any doubts about the authority or actions of the tenant's relatives or friends, contact your attorney for further advice.

At this time, you may also find yourself in the middle of a dispute as to who has access to the unit. Although you should be sympathetic to your tenant's grieving relatives, make sure that you don't grant rental unit access to an unauthorized person; you may be held liable if Aunt Margo's prized goldfish-shaped cookie cutter turns up missing. If you face this unusual situation, it's best to have your landlord–tenant legal expert assist you in determining who's authorized to access the rental and potentially remove property. Your goal is to get the unit back without any furnishings or personal property so that you can rerent it, but don't be in such a hurry that you fail to take the proper steps and are accused of unintentionally aiding in the theft of the deceased tenant's property.

IN THIS CHAPTER

- Giving your tenant the necessary paperwork to make move-out a breeze
- Assessing the rental unit at move-out
- Dealing with security deposit disputes
- Knowing what to do when a tenant abandons your property

Chapter 16
Moving Out the Tenants

Although hanging on to your great tenants forever would be nice, the reality is that all tenants leave at some point. Your goal is to make the experience as straightforward and painless as possible by maintaining clear communication and procedures. Don't just assume that your tenants are familiar with proper move-out procedures. Instead, have a proactive plan that involves your tenants in the process of preparing the rental unit for the next tenant. Communication and reasonable, mutual expectations are the key.

REMEMBER

It may sound pessimistic, but start preparing for your tenants' eventual move-out when they first move in. The tenant information letter (covered in more detail in Chapter 12) lists the legal requirements of move-out, as well as your expectations for giving proper notice. You can use the move-in/move-out itemized statement (also explained in Chapter 12), which you complete upon move-in to establish the unit's baseline condition, to evaluate the unit's condition on move-out and calculate the appropriate charges, if any.

This chapter covers the importance of having a written notice (the move-out information letter) and proper procedures in place for returning the security deposit. It also helps you distinguish between damage and ordinary wear and tear, and offers guidance on handling special move-out situations.

Requiring Written Notice of Your Tenants' Move-Out Plans

When giving notice that they plan to move, most tenants call, text, or email; others simply mention their plans in passing when they see you, even though your rental contract most likely contains clauses that require written notice. Some tenants put their notices in writing by sending you simple one- or two-sentence letters or emails but leave out critical information or important details, such as the date when they're moving or where to send their security deposit reconciliation paperwork. Although any type of written notice from a tenant is usually legal, a proper notice provides much more information.

To be sure that you're complying with the law in all regards, require your tenants to use a tenant's notice of intent to vacate rental unit. This form contains important information, including the tenant's approval of your entering the unit upon reasonable notice to show it to workers, contractors, and prospective tenants. Be sure to include all agreed-upon terms, including the following:

- How the notice of entry must be given
- How much time must elapse before entry is allowed
- The days of the week and/or number of hours you may access the unit
- Whether you can access the unit in the tenant's absence

Go to `www.wiley.com/go/propertymanagementkitfd4e` to access a version of the tenant notice of intent to vacate rental unit that you can print, fill out, and supply to your tenants.

When you receive verbal or written notice, honor the date of the notice, provided that it complies with the notice requirement in your lease. But also insist that the tenant complete this form; doing so is simply good policy. If you don't have this info in writing, many misunderstandings can arise. You may not remember the move-out date and thus may be be caught off guard, scheduling a new move-in only to find that the tenant won't be out until the following week. The most common reason why tenants want to give only verbal notice is to change the move-out date as their plans change and blame any conflicts on your poor memory. Surprises aren't good business!

REMEMBER

Time is truly of the essence when it comes to an occupant's move-out. Several states have 14- or 15-day deadlines for the accounting or return of the security deposit, and virtually all states require the security deposit accounting to be completed within 30 days. To make matters even more complicated for landlords,

some states have variable security deposit deadlines that range from 14 to 30 days, based on parameters such as the type of rental agreement or whether you were given a forwarding address. Be forewarned that some states charge landlords penalties of up to three times the amount of the security deposit if they don't meet the deadlines for accounting or deposit return. Check with your local tenant–landlord legal expert or National Apartment Association affiliate for the rules in your state.

Often, rental property owners and managers receive less than the legally required notice or no notice at all. How do you determine the tenant's financial responsibility in such cases? Suppose that the required notice is 30 days, and the tenant gives you a written notice on the 10th of the month that they plan to vacate at the end of the current month. The tenant must vacate as agreed, but they're responsible for the full rent through the required 30-day notice period. In such instances, you may have a legal obligation to re-rent the property to mitigate the financial responsibility of the tenant. When only a few days remain in the required notice period, however, most courts don't expect you to re-rent the unit.

Providing Your Tenant a Move-Out Information Letter

Many tenants are afraid you're going to cheat them on their security deposit refund. After all, security deposit disputes are the number-one issue in many small-claims courts. Just as the tenant information letter (covered in Chapter 12) helps get the landlord–tenant relationship off to a good start, the move-out information letter can help end the relationship on a positive note. You can access a printable version of the Move-Out Information Letter at `www.wiley.com/go/propertymanagementkitfd4e`.

This letter (see Figure 16-1) thanks your tenants for making your rental unit their home and provides the procedures for preparing the unit for the final move-out inspection. It also informs them of your policies and method of returning their security deposit after any legal deductions.

Give tenants this letter as soon as they give written notice to vacate. Although state law and your rental contract may contain information on the security deposit refund process, most tenants appreciate receiving this information so that they'll know what to expect without having to search for their rental contract while trying to pack.

Move-Out Information Letter

Tenant Name(s) _____
Rental Unit Address _____

Dear _____,

We are pleased that you selected our property for your home and hope that you enjoyed living here. Although we are disappointed to lose you as a tenant, we wish you good luck in the future. We want your move-out to go smoothly and end our relationship on a positive note.

Moving time is always chaotic and you have many things on your mind, including getting the maximum amount of your security deposit back. Contrary to some rental property owners, we want to be able to return your security deposit promptly and in full. Your security deposit is $_____. Note that your security deposit shall not be applied to your last month's rent as the deposit is to ensure the fulfillment of lease conditions and is to be used only as a contingency against any damages to the rental unit.

This move-out letter describes how we expect your rental unit to be left and what our procedures are for returning your security deposit. Basically, we expect you to leave your rental unit in the same condition it was when you moved in, except for ordinary wear and tear that occurred during your tenancy. To refresh your memory, a copy of your signed Move-in/Move-out Inspection Checklist is attached reflecting the condition of the rental unit at the beginning of your tenancy. We will be using this same detailed checklist when we inspect your rental unit upon move-out and will deduct the cost of any necessary cleaning and the costs of repairs, not considered ordinary wear and tear, from your security deposit.

To maximize your chances of a full and prompt refund, we suggest that you go through the Move-In/Move-Out Inspection Checklist line by line and make sure that all items are clean and free from damage, except for ordinary wear and tear. All closets, cabinets, shelves, drawers, countertops, storage, refrigerator, and exterior areas should be completely free of items. Feel free to check off completed items on this copy of the Move-In/Move-Out Inspection Checklist, as we will use the original for your final inspection.

Some of our tenants prefer to let professionals complete these items. You can contact your own professional or, upon request, we will be glad to refer you to our service providers so that you can focus on other issues of your move. You will work directly with the service provider on costs and payment terms, knowing that you are working with someone who can prepare the unit for the walkthrough inspection. Call us if you would like contact information or for any questions as to the type of cleaning we expect.

Please be sure to remove all personal possessions, including furniture, clothes, household items, food, plants, cleaning supplies, and any bags of garbage or loose items that belong to you. Of course, please do not remove any appliances, fixtures, or other items installed or attached to your rental unit unless you have our prior written approval.

Please contact the appropriate companies and schedule the disconnection or transfer of your phone, cable, and utility services in your name. Also, cancel any newspaper subscriptions and provide the U.S. Postal Service with a change of address form.

Please contact us when all the conditions have been satisfied to arrange an inspection of your rental unit during daylight hours. To avoid being assessed a key replacement charge, please return all keys at the time you vacate.

You have listed _____ as the move-out date in your notice. Please be reminded that you will be assessed holdover rent of $_____ per day for each partial or full day after the above move-out date that you remain in the rental unit or have possession of the keys. If you need to extend your tenancy for any reason, you must contact us immediately. Please be prepared to provide your forwarding address where we may mail your security deposit.

It is our policy to return all security deposits either in person or at an address you provide within _____ after you move out **and** return all keys. If any deductions are made for past due rent or other unpaid charges, for damages beyond ordinary wear and tear, or for failure to properly clean, an itemized explanation will be included with the security deposit accounting.

If you have any questions, please contact us at _____.

Thank you again for making our property your home. We have enjoyed serving you, and we hope that you will recommend our rental properties to your friends, family, and colleagues. Please let us know if we can provide you with a recommendation letter. Good luck!

Sincerely,

_____
Owner/Manager

FIGURE 16-1: This letter can help end the landlord–tenant relationship on a positive note.

Courtesy of Robert S. Griswold

WARNING

The letter reminds tenants that they can't apply their security deposit to the last month's rent and that it's to be used only as a contingency against any damages to the unit or for other lawful charges. If no portion of a tenant's deposit is called last month's rent, you aren't legally obliged to apply it in this way. Unless your rental contract uses this wording, don't allow your tenants to try to apply their deposit toward their final month's rent; you may not have enough money on hand to cover any legally allowed charges. Apply the security deposit funds to rent only when unpaid rent is one of the "damages" you suffer, as the landlord, after the tenant has vacated.

TIP

If the vacating tenant is a good one, pleasantly surprise them by asking whether you can provide them a letter of recommendation. Virtually no landlords do this, so a positive reference can be very helpful to tenants, whether they're moving to a new rental property or buying a home. This kind of offer is welcome and courteous, and it's one that most tenants have never received from landlords. The bonus for you? If you offer to provide a letter of recommendation, tenants often work extra-hard to make sure that the rental unit is clean and undamaged to thank you for your positive comments.

Walking Through the Unit at Move-Out

After your tenant vacates your rental property, inspect it as soon as possible, preferably during daylight hours. Doing so allows you to determine what work you need to do to prepare the property for a new tenant and to assess any legally allowed charges that you need to deduct from the former tenant's security deposit.

TIP

A good way to motivate tenants to comply with your move-out procedures is to remind them that they'll receive the full sum of their deposit (plus interest if required by statute) if they leave the rental unit in clean condition, with no damage beyond ordinary wear and tear. (I clarify what ordinary wear and tear later in this chapter.)

To ensure that the walk-through runs smoothly, you need to understand the process and how to handle the security deposit if you discover damages. The following sections can help.

Getting the 411 on the walk-through

Many new landlords have been asked to perform the move-out inspection with some or all of the tenant's possessions still in the rental property, only to discover that creative tenants can hide damage very easily. So try to schedule the move-out inspection with your vacating tenant just after they remove all their furnishings and personal items, turn in all their keys, and disconnect the utilities or convert them to your name as the property owner.

In my experience, most damage occurs during move-in and move-out, so another plus for doing the inspection at this time is to make sure that the tenant doesn't do damage after the inspection while they're removing their possessions.

Unfortunately, because of the challenge of setting mutually convenient time or legal requirements in your state that require a pre-move-out inspection, you can't always arrange to do the inspection with your tenant after they've moved out.

In this case, conduct the move-out inspection as soon as possible, preferably with a witness present (or at least documenting it with a digital still or video camera on your smartphone). If you wait too long to inspect the unit and then discover damage, the tenant may claim that someone else must have caused the damage, and you may face an uphill battle in court.

TIP

I strongly recommend performing the final move-out inspection with the vacating tenant present. Doing so resolves many of the issues that can become contentious enough to end in small-claims court. If you live in a state that allows the tenant to be present when you're determining the proper security deposit deductions, consider doing that as well.

Tenants have been known to show up for the walk-through but deny that they know anything about the damaged items you find. Refer to your move-in/move-out itemized statement (see Chapter 12) in these situations. If the checklist clearly indicates that the item was in good condition when the tenant moved in, their claim doesn't stand much of a chance. If the move-in remarks are blank or vague, however, you may have some problems justifying a deduction.

REMEMBER

Because you're the rental housing professional, the courts will hold you to a higher standard of record-keeping and usually interpret your vague documents in the tenants' favor.

Paying the security deposit — or not

Security deposit disputes are top problem in landlord–tenant relationships. Although the proper use of the move-in/move-out itemized statement (see Chapter 12) eliminates many of these disputes, the definition of ordinary wear and tear (see the next section) is one of life's greatest mysteries.

FOR CALIFORNIA RENTAL PROPERTY OWNERS

If you own rental property in California, you need to comply with special rules and procedures for vacating tenants. California landlords must provide their tenants written notice stating that they're entitled to request and be present for an initial premove inspection. A vacating tenant can decline, but if they accept, the rental property owner or manager needs to provide feedback on what cleaning and repairs, if any, need to be addressed to receive the maximum security deposit back.

Many owners see a tenant's security deposit as a source of additional income that's theirs for the taking. As a business practice, however, returning the deposit in full is much better for the owner. You can minimize arguments with former tenants and avoid small-claims court by making only fair and reasonable deductions and providing the security deposit accounting and any refund within legally required time limits.

Go to `www.wiley.com/go/propertymanagementkitfd4e` for information regarding each state's time limitations for providing former tenants an accounting or return of the balance of their security deposit.

Although state laws vary, typically, the only lawful deductions from a tenant's security deposit are for cleaning; damages beyond ordinary wear and tear; unreturned keys, fobs, or remotes; and unpaid rent. Therefore, the actual out-of-pocket costs to renovate the unit for the next tenant are greater than the legally allowed deductions because you must pay for all damage that falls within the definition of ordinary wear and tear. Be careful not to charge excessive deductions to try covering these expenses; you may fight a losing battle in small-claims court.

TIP

Encourage tenants to earn the full return of their security deposit. Some states allow for a nonrefundable security or cleaning deposit, and in those states, you can even offer the tenant the opportunity to receive some or all of the nonrefundable deposit. This situation can be a win–win: The tenant can use the money, and you can clean and sanitize the unit quickly to begin showing it to prospective new tenants. Typically, you can't charge the outgoing tenant for lost rent incurred while maintenance and cleaning are being done. So if you can prepare the unit and get it back on the market quickly, you're well ahead of the game.

WARNING

Tenants often request the chance to do some more cleaning or make repairs if you indicate that you're going to take deductions from their deposit. If you feel that they're capable of the work and can do it quickly, you may want to give them a second chance at cleaning or making simple repairs (as is legally required in California).

In a post-pandemic world, incoming tenants will be very reluctant to accept a rental unit that has not been completely and professionally sanitized by a trained, experienced cleaning or janitorial firm, so you may end up having to pay for professional cleaning without being able to pass the cost on to the vacating tenant. Also be wary of tenant repairs that can cost you more to correct later or that create liability issues. With the majority of repairs, you're better off refusing tenants' requests to fix them themselves.

TIP

If you are hiring vendors to do the work, ask them to take before-and-after pictures. This documentation will help you in the event of a dispute with your tenant; it also helps you ensure that the vendor is motivated to do the work well, as you are looking for the difference in the before-and-after pictures.

Defining ordinary wear and tear

Legally, you're entitled to charge your tenant for damages beyond ordinary wear and tear. But virtually all disputes over security deposits revolve around this elusive definition. It's your job to be able to tell the difference between ordinary wear and tear and more serious damage that you can legally deduct from your tenant's security deposit.

The standard definition of ordinary wear and tear in most states is deterioration or damage to the property expected to occur from normal use. The problem is what's considered to be normal use. Judicial decisions vary from state to state and court to court. If you ask 100 small-claims court judges or commissioners, you'll likely receive nearly 100 different interpretations of this definition.

Generally, the longer your tenant has occupied the rental unit, the greater the expectation that conditions that deteriorated during the tenancy will be considered ordinary wear and tear. The bottom line? No hard-and-fast rules exist regarding what constitutes ordinary wear and tear and what the tenant can legally be charged; the condition of the rental unit at the beginning and end of each tenancy will vary significantly, so every turnover of a rental unit is unique.

Have I suggested that you take pictures? Current technology makes documenting the condition at move-in and again at move-out so easy and inexpensive that you'll blame yourself if you're challenged on your security deposit deductions and failed to take before-and-after pictures.

Table 16-1 gives you some ideas for comparison to help you determine what is ordinary wear and tear and what goes beyond ordinary into damage that you can lawfully deduct from the tenant's security deposit.

Using a security deposit itemization form

After you've inspected the rental unit and determined the proper charges, you need to prepare the security deposit itemization form. Complete this form, and give the vacating tenant a check for any balance due within your state's maximum time guidelines. Most states allow rental property owners 14 to 30 days to complete the accounting, but several states have no specific legal deadline. Either way, make sure that you don't wait until the last minute, because the consequences for doing

so in most states are severe, including forfeiting your rights to any deductions and punitive damages. Go to www.wiley.com/go/propertymanagementkitfd4e to access a template for a security deposit itemization form.

TABLE 16-1 Ordinary Wear and Tear versus Damage

Ordinary Wear and Tear (Landlord's Responsibility)	Damage beyond Ordinary Wear and Tear (Tenant's Responsibility)
Smudges on walls and near light switches	Repainting in non-neutral colors or crayon marks on walls or ceilings
Minor marks or scratch on walls, ceilings, or doors	Large marks or deep scuffs on, or holes in, walls, ceilings, or doors
A few small tack or nail holes	Numerous nail holes that require patching and/or painting
Faded, peeling, or cracked paint	Very dirty or scuffed painted walls
Carpet worn thin from normal use	Carpet stained by bleach, paint, or dye
Carpet with moderate dirt or spots, or furniture indentations	Carpet with rips or urine or other stains made by pets
Carpet or curtains faded by the sun	Carpet or curtains with tears, holes, or cigarette burns
Floors in need of a coat of varnish or windowsills with moderate dirt	Deep scratches or water stains on wood floors or windowsills from windows left open during rainstorms
Moderately dirty mini or vertical blinds	Bent, severely damaged, or missing mini or vertical blinds
Worn gasket on refrigerator or dishwasher	Broken or missing shelves, dishwasher racks, or silverware basket
Missing grout or loose tiles in kitchen or bathrooms	Missing or cracked tiles in kitchen or bathrooms
Loose door handles or bathroom towel bars	Missing door hardware or towel bars
Worn or lightly scratched enamel or porcelain in bathrooms	Cracked, chipped, or broken enamel or porcelain in any bathroom fixture
Doors sticking from humidity	Broken hinges or doorframes
Drywall cracks from settling	Holes punched in walls or through doors
Peeling wallpaper	Torn or cut wallpaper
Scuffed flooring	Scratched or gouged flooring
Water stains in shower enclosure	Cracked shower enclosure
Loose railing	Railing missing or torn away from wall
Dirty screens and windows	Missing windows or screens, torn screens, or broken windows

TIP

Send the security deposit accounting and refund, if any, as soon as you're sure of the final charges. Tenants need this money, and the longer they wait, the more impatient and upset they become — and the more likely they'll be to challenge your charges and complain about you endlessly on their favorite landlord review site. You need to make sure your maintenance personnel have been through the entire unit carefully, of course, and found all tenant damage beyond ordinary wear and tear. (In theory, you can always seek reimbursement for items discovered after you refund the deposit, but your chances of collecting in such a case are slim.)

Some tenants want to pick up the the check for their returned security deposit as soon as possible; others don't even tell you where they can be reached. Generally, you should mail the security deposit itemization form to the address provided by your tenant on the tenant's notice of intent to vacate rental unit. If you don't have your vacating tenant's forwarding address, send the form to their last known address, which may be your own rental unit. Perhaps the tenant is forwarding their mail to a new address; if not, the check will be returned to you. You should retain the check because eventually, your tenant will contact you, and you want to be able to show that you used good faith to reach them.

TIP

If your security deposit itemization form and refund check are returned as undeliverable, be sure to save the returned envelope in case the former tenant claims that you never sent the legally required accounting. Many states have very severe penalties for improper deductions or failure to provide the security deposit accounting in a timely manner. Check your state laws to determine the proper disposition of the tenant's uncashed deposit refund check, as this money does not belong to you.

Be able to prove that you met the legal requirements in terms of returning the deposit in a timely manner. Otherwise, a small-claims court may rule against you, because as a major player in the rental housing business, you're held to a higher standard of record-keeping.

TIP

You can send the deposit accounting and check via certified mail (as required by some states) to prove the date you sent it and whether and when it was received. This U.S. Postal Service offering provides you a receipt and electronic verification that delivery was made or attempted, and this receipt can be retrieved for up to two years. It's much more cost-effective, however, to go to the post office and ask for a certificate of mailing, which records the date you sent the check (and doesn't require the recipient's signature for delivery). But keep a copy, as the USPS doesn't retain or have any way to verify your certificate of mailing.

WARNING

Tenants, particularly roommates or married couples in the midst of a separation or divorce, may fight over the security deposit. Legally, the deposit belongs equally to all tenants who signed the rental contract unless otherwise agreed in writing. If you arbitrarily divide the check among the tenants, you can find yourself liable to the other parties.

In multitenant situations involving a court order or a written agreement or instructions signed by all the tenants, always handle the deposit as directed. If you don't have a court order or a written agreement, follow these steps for paying out the security deposit:

1. Make your deposit refund check payable jointly to all the adult tenants.
2. Prepare a mailing that includes the refund check for one of the tenants with a copy of the check to the others.

   Leave it up to the tenants to handle the check's endorsement.
3. Mail copies of your **security deposit itemization form** to each of the tenants at **their** respective forwarding address**es**.

Keeping receipts for repairs and cleaning

As you complete repairs and cleaning after a resident moves out, keep the receipts as documentation of how much you paid for each service. Make sure that each receipt contains the following information:

- Date on which work was performed
- Description of the work performed
- Indication of who performed the work
- The rental unit address and number or letter
- Indication of who's responsible for covering the cost (resident or landlord)

TIP

Attach all receipts to the move-in/move-out checklists form, and store it in the resident's file folder.

Deducting from the security deposit

If you make deductions from the security deposit, be sure that your paperwork is accurate and detailed. Because property damage deductions are only for damages beyond ordinary wear and tear, you need to be sure that your description of the item explains why the damage exceeds that amount.

If you merely indicate "Animal/pet damage — $200" on the security deposit itemization form, you may be challenged. But if you provide details like "Steam cleaned and deodorized carpeting in living room to remove extensive animal urine stains with very strong odor — $200", and if you include your receipt and photos of the stained carpet (and especially the pad underneath the carpet), you greatly

improve your chances of winning if the matter gets to court. Animal urine stains are difficult to photograph, but try to get them if you can. There is no easy way to capture and share the strong odor of urine with the court on a future date, so the more descriptive the notes on the invoice are, the better. (Maybe you won't be challenged in the first place.)

Every rental property owner can recall claims from former tenants protesting deposit deductions because they "left the property cleaner" than it was when they moved in. Fortunately, the advent of smartphones with digital photography is a real advantage, and I strongly encourage you to use this technology liberally and document your deposit deduction fully. Be sure to include captions with each photo so that you recall and document what is being shown as proof of damage beyond ordinary wear and tear.

TIP

Bust out that smartphone digital camera or video recorder, and follow these guidelines when listing charges on your security deposit itemization form:

1. Indicate the specific item that's been damaged.

   List all damaged walls, ceilings, flooring, window coverings, fixtures, appliances, and pieces of furniture separately.

2. Note the specific location of the damaged item.

   Document the room and which part of the wall, ceiling, floor, or corner of the room the damaged item is located in. Use a floor plan of the rental unit with compass directions, if possible.

3. Comment on the type and extent of the damage.

   Be sure to describe the damage in detail by using appropriate adjectives, such as *dirty, soiled,* filthy, grimy, substantial, excessive, major/minor, scratched, scuffed, stained, soiled, ripped, cracked, broken, inoperative, irreparable, missing, burned, or chipped.

4. Note the type and extent of repair done.

   Describe the repair by using words such as spackle, patch, paint, steam clean, deodorize, and refinish. Indicate whether an item is so damaged that it has to be replaced and, if so, why. Indicating the item's age is helpful, especially if the item was new when the tenant first occupied the rental unit and its lifespan was supposed to exceed the length of the tenancy.

5. Document the cost of the repair or replacement.

   List how much you spent or plan to spend based on a third-party estimate. Include copies of receipts whenever possible.

You may not know the charges for certain items until the work is complete and you receive the contractor's final invoice. Also, owners may not discover some damages until the rental unit preparation work is under way. During the walk-through, note on your checklist that the item is damaged, and advise the tenant that you reserve the right to deduct the repair costs. When you know the charges, you can update the checklist and include a copy with your security deposit itemization.

TIP

If you won't know the final charges and deductions from the tenant's deposit before your state's deadline for the accounting and/or return of the deposit balance, make sure to send the tenant a written itemized accounting of the charges you *do* know, and indicate that you're waiting for additional information. Also include an estimated time that you expect to have the final charges, and send the final accounting and any remaining funds as soon as possible.

Don't withhold the entire deposit if you know that the undetermined items are likely to be much less than the balance of the deposit. In those instances, conservatively estimate the potential remaining charges, and refund the balance of funds, along with your explanation letter, by the deadline. Most judges consider this move to be a good-faith effort and won't penalize you if the matter ultimately ends up in court.

WARNING

Some rental property owners give all vacating tenants a pricing chart with a list of costs that will be charged for various services and damaged items. These owners believe that pricing charts minimize disputes because the charges are predetermined and are given to the tenants in advance. They argue that the tenants will see how expensive repairs are and will take care of some of the work on their own. This method has some logic, but it also poses potential problems. Prices change frequently, and most courts insist on actual charges, not estimates. Also, many items can't possibly have preset prices for repair, because different contractors may charge different amounts. Rest assured that a tenant won't pay up if your actual charge turns out to be much higher than the preset charge indicated on your pricing chart. But if the tenant challenges your deductions, and your actual invoice shows that you paid less than what you charged the tenant, you'd better have your checkbook ready.

Dealing with Special Situations

Although you may have worked very hard to make sure that everything goes smoothly during your tenant's move-out, a few special situations inevitably arise. The more you know about how to handle these situations, which I describe in the following sections, the less likely they are to become significant problems.

Forking out the dough: When damage and unpaid rent exceed the security deposit

As a rental property owner, you're probably going to encounter a time when a tenant's security deposit isn't sufficient to cover the unpaid rent and the damage caused by the tenant. Unless you're legally prohibited from doing so, allocate the deposit to cover the damage first and the unpaid rent after that, because it makes sense to apply the deposit to items that are more difficult to prove in court.

Suppose that you're holding a $500 security deposit from a tenant when they vacate, owing $350 in delinquent rent. When you inspect the unit, you find $400 in damage beyond ordinary wear and tear. The total of the rent owed and the damages done is $750, but the deposit is only $500. What should you do? First, apply the $500 deposit to cover the full $400 in damage, and allocate the remaining $100 toward the unpaid rent. Then you can pursue the $250 delinquent rent balance with your rent collection ledgers and records as evidence to clearly prove that this amount of rent is still owed.

TIP

Be sure to record the actual costs for damages, even if you don't intend to pursue the tenant for the balance owed. This way, you can prove in court that your expenses in court are reasonable (if you ever need to provide proof).

REMEMBER

In most states, even if your lawful deductions exceed the departing tenant's security deposit charges, you must provide the tenant a full accounting of the damages. You must do so even if you file a small-claims lawsuit for the balance due. Always follow the required procedures for the accounting of the deposit.

Having your facts straight: When disputes arise about the security deposit

No matter how fair and reasonable you are with your security deposit deductions, sooner or later, you're bound to have a former tenant challenge them. Even if your deductions were proper, and you're sure that you're right, going to court over this matter may cost you more than the deduction amount in legal fees. Often, the disagreement is over a relatively small amount of money.

You may have deducted $100 for painting touch-up, for example, but your former tenant may believe that the charge should be $50, so you're arguing over a $50 difference. Explore possible negotiations to resolve the matter before going to court. If you're sure that your charges were fair, always maintain that position in your discussions with your former tenant, even if you want to see whether a settlement is a possibility.

TIP

If you charge your tenants for damage to the rental unit, either during their tenancy or afterward by deducting from the deposit, you need evidence to back up your claim in case a tenant disputes the damage. Digital photos or video recordings of the damage can be effective tools for resolving disputes with tenants or proving your position in court. Most courts have video monitors that you can use to show the judge or jury your evidence. Just be sure that you have possession of the unit or have given proper legal notice before entering it to take photos or record a video.

Reclaiming what's yours: When the rental is abandoned

Occasionally, tenants abandon your rental unit without notice. This discovery can be good news if you're taking legal action against the tenant, because you're sure to save lost rent days and may be able to reduce your legal costs.

Each state has its own definition of abandonment, so make sure to comply with all legal requirements before determining that the rental unit is abandoned. The best way to know for sure is to contact the tenant and have them give you a statement in writing relinquishing their rights to possession of the unit.

TIP

Have a policy in place stating that your tenants must inform you if they plan to be absent from the unit for more than one or two weeks. This policy can be helpful in determining whether a property is abandoned or the tenant is just on a long vacation.

Consider giving the tenant a legal notice to enter the unit if you suspect that the tenant has abandoned your property. You can serve this notice by mailing a copy to your tenant at the unit address and/or by posting the notice on the front door, as required by your state's law. When you're inside the unit, look for additional evidence, including removed furniture, clothing, and toiletries; stale, spoiled, or missing food; and absent pets. You can also send your tenant a note or letter. If the letter is returned as undeliverable or forwarded to a new address, your tenant may have abandoned the unit.

If you already have an eviction action under way, your legal counsel may suggest that you continue the legal process until you receive possession. This way, you can minimize your potential liability in the event that the tenant shows up later and claims the right to the rental unit. If no eviction action is in progress, be sure to serve the required legal notice of belief of abandonment. When you've met your state requirements, you can take possession of the unit and begin your turnover work to put it back on the rental market.

ABANDONED PERSONAL PROPERTY

One of a rental property owner's worst nightmares is discovering that a tenant has suddenly abandoned the rental unit and left all their furnishings and household items behind. More common, however, is finding that a tenant has moved out and returned the keys but left behind a few items of personal property. Often, these items are junk that even your favorite charity will refuse to accept. But many landlords tell tales of the tenant who remembers (three months after they moved out) that they left their great-aunt's diamond ring in the dilapidated antique dresser with a few missing drawers.

When you discover that your tenant appears to have left behind personal property, immediately try to locate the tenant and ask them to reclaim them property. Serve the appropriate legal notices as required by your state. (Note that state laws vary widely in terms of standards for establishing that a tenant's personal property has been abandoned and your obligation in handling that property.)

If you're unable to locate the tenant, or if the tenant refuses to claim the items, you need to have an impartial witness assist you in preparing a written and photographic inventory of the abandoned items. If possible, carefully move the abandoned items to a secure storage area until you can proceed with the sale or disposal of the possessions per state law. If the personal property is extensive, hiring a third-party firm that specializes in such situations to prepare appraisals and conduct the sale or disposition is a good idea. Keep copies of all appraisals and photos for your records.

Several states allow the owner an automatic lien on the personal property to be used toward unpaid rent or storage costs. So after the expiration of legal notices, you can attempt to sell the items and generate funds to offset your associated expenses incurred, with any balance applied toward unpaid rent. Any funds beyond those amounts belong to the tenant.

In some states, selling or disposing of a tenant's abandoned property requires court approval. In others, you're bound to place abandoned property in bonded storage, with removal supervised by an officer of the law. Be extremely careful to follow the specific legal requirements for your area before you sell, give away, or keep any of the tenant's abandoned personal property, because the penalties for breaking the law can be very stiff.

4 Techniques and Tools for Managing Your Residential Property

IN THIS PART . . .

Deal with employees, government agencies, and contractors.

Do the maintenance to keep your property looking great.

Keep your tenants safe and secure.

IN THIS CHAPTER

- Finding, hiring, and supervising employees
- Assembling a quality team of contractors and vendors

Chapter 17
Working with Employees and Contractors

As your rental property business grows, you'll find that you're limited in how much work you can handle yourself, and you may begin to consider hiring employees. But before you jump into being an employer, you need to fully understand the responsibilities, financial consequences, and increased liability associated with having employees. You also need to determine how much an employee costs you versus how much that employee is worth to you based on the time-consuming aspects of rental management that the employee can take off your plate.

Extensive legal requirements and responsibilities also come with being an employer. So you may find that it's easier and less risky to use independent, self-employed, insured contractors or to hire companies that can handle your maintenance and service needs. In fact, you may end up better off financially by paying the higher cost of an independent contractor or service company than by employing your own on-site manager or maintenance person.

This chapter touches on the benefits and burdens of hiring employees to assist you in the management of your rental properties and tells you the proper way to locate, hire, and supervise contractors. Property management is a time-consuming job, but you can lessen the burden a bit by hiring people.

Surveying the Ins and Outs of Bringing Employees Onboard

If you own only a few rental units, you probably don't need any employees, because you can handle responsibilities by yourself or with the help of contractors. But when you begin acquiring a large number of rental properties — either many small properties in scattered sites within the same general area or one or two larger apartment buildings — you probably need to hire at least one employee.

For most rental owners, that first hire is an on-site manager. On-site managers offer several advantages. They can handle many of the day-to-day problems; make sure that the property is tidy and properly maintained, with good curb appeal; notify you or your maintenance person if an emergency occurs; assist in marketing vacant rental units; and resolve budding conflicts between tenants. On-site managers come with some disadvantages, too — namely, the added expense; the liability inherent in having an employee; and the difficulty of finding and retaining good, qualified help. But don't let these challenges stand in your way if an employee is an asset in your particular situation.

If you do decide to hire employees, check out the following sections for advice on managing them.

Establishing job functions, work schedule, and compensation

Before you begin looking for a new employee, you need to determine what that employee's job responsibilities, work schedule, and compensation are going to be, and you need to put those details in writing.

WARNING

Most rental property owners don't create written job descriptions for their on-site managers and maintenance personnel. You don't want to make this mistake. If you rely solely on verbal agreements, disputes are sure to occur — and they're usually resolved in the employee's favor.

Some landlords have an unrealistic expectation of the time it takes to complete tasks satisfactorily. If you've ever done the work yourself, you have a very good idea of the time it takes. But if you're acquiring a larger building with older infrastructure and many more tenants, you may find yourself frustrated because the part-time employee you hired doesn't keep the building up to your standards in 10 hours per week.

TIP

Many local National Apartment Association (NAA) affiliates offer great on-site manager employment agreements written specifically to comply with federal and state employment laws. I recommend that you use NAA forms (available online for many states) to formally record your mutual agreement regarding duties, authority limits, compensation, hours, and rental unit credit, if applicable. (Be sure to check state laws concerning limits on the rental credit if part of employee compensation is in the form of discounted or free rent.)

Also take particular care to ensure that the employee has set hours and compensation that at least meet the federal or state minimum wage. Many states have implemented higher minimum wages that are being phased in over several years, so you need to make sure that your employee starts at but always remains at or above minimum wage. Keep a tickler file on each increase in the minimum wage for your area. Require any overtime to be approved in advance unless there's an emergency. Your policy should require your employee to contact you immediately after the matter is under control or (if the emergency is after hours) the next business day.

Have your employees fill out a time sheet every day, and be sure to pay overtime or allow compensating time off within the same pay period, if allowed within the limits of your state employment laws.

WARNING

Failing to clearly define an employment contract, carefully document hours worked, and strictly enforce limits on extra hours can lead to exorbitant claims for back pay and overtime from a disgruntled employee in the future, along with accrued payroll taxes and penalties. Many of these employment forms require the employee to sign and acknowledge that the responsibilities they are being asked to perform are reasonable for the amount of hours and compensation paid. These forms may also require the employee to immediately notify you if they are routinely working more than these allotted hours.

Go online to `www.wiley.com/go/propertymanagementkitfd4e` to access a sample time sheet, as well as several generic job descriptions that you can customize for your needs. A friendly reminder: Be sure to have an attorney review all forms, especially legal documents.

Screening employees

Because your employees will have close contact with your tenants, make sure to screen all candidates before hiring them. Why screen? You can no longer rely on a résumé, an interview, and a list of references when making hiring decisions. And due to the minimal day-to-day supervision in many positions, the rental housing industry and building maintenance trades have historically been relatively easy areas for people with poor work histories, alcohol or substance abuse problems,

and serious criminal convictions to find employment. But many managers and maintenance personnel are in a position of trust; they often assist in the collection of rent and cash from coin-operated laundry equipment, have regular tenant contact, and have ready access to building equipment and supplies and the rental units. Therefore, the liability for a rental owner who fails to screen employees or contractors properly is very high.

If you choose to conduct your own background checks on employees, pay particular attention to work and residence history. Consider criminal background checks to be mandatory for any employee who will have access to money or unit keys.

REMEMBER

In some areas of the country, laws require rental property owners to have an on-site manager if a single rental property location has a certain minimum number of rental units. Rental properties with 8 or more units in New York City and properties with 16 or more units in California, for example, require an on-site manager or responsible party.

The employment-screening process is much more difficult than tenant screening because of the numerous state and federal laws that protect prospective employees. These laws make it difficult for the small rental owner to meet all the legal requirements of hiring. If you own just a few properties, you may want to consider using outside employment firms to locate and screen potential employees.

WARNING

Be sure to check with an employment law specialist before initiating a pre-employment screening policy to ensure that your application procedures meet all legal requirements and to help you avoid federal law pitfalls. A job applicant's credit history can be important if the employee will be handling money. Yet the federal Fair Credit Reporting Act (FCRA) covers employee background checks, and several mandatory disclosures are required.

TIP

California employers need to be aware of strict interpretations and recent aggressive enforcement of the Investigative Consumer Reporting Agency Act, including private lawsuits with significant potential fines and awards for attorney fees. Most states can follow the FCRA disclosure guidelines, but a recent California Supreme Court ruling requires a separate pre-employment-screening disclosure for all hiring in California, including a full disclosure of the contact information of the company preparing the report, and a mandatory "check box" where applicants can request a copy of the investigative consumer report.

Also, the Americans with Disabilities Act (ADA) severely restricts an employer's ability to seek information about an applicant's medical history. The Family and Medical Leave Act and state worker's compensation laws also impose restrictions on employee health information. The employee can volunteer information, but you can't ask questions concerning physical limitations, workers' compensation

claims, lost time due to illness or injury, or drug and alcohol addictions. Be very careful; employers who violate FCRA or ADA regulations can suffer significant penalties.

The following sections take you through the process of screening employees before hiring them and explain the convenience of working with an employment-screening firm.

Walking through the process

Focus your screening on education, job history, and references, as well as a criminal background search and a drug/alcohol screening. Have each prospective employee complete an employment application that lists their education, experience, and references, and have them specifically authorize you to investigate the provided information. If you're hiring an employee who'll live on-site, require them to complete a separate rental application and rental contract, and be sure to include any other adult occupants, just as you would for a nonemployee rental.

Next, screen your prospective employee on the phone. Describe the job requirements, hours, and compensation. Then discuss the applicant's current employment status; review their qualifications, skills, and experience; and reconfirm their interest in the position, the proposed work schedule, and compensation. If interest seems to be mutual, schedule an in-person interview and a tour of the rental property.

REMEMBER

The evaluation and selection of your on-site manager is one of your most critical tasks, and you should make every effort to be diligent and objective. As my good friend Dorothy Gourley, a rental industry educator, advised owners for many years, your on-site manager needs to be fair, firm, and friendly — not always an easy combination to find in one person. The ideal candidate combines honesty and integrity, perseverance, and good communication or people skills. They also have a good employment history; the ability to work with you; and a professional, stable demeanor that complements your tenant profile. Experience isn't necessary if you're willing to train or provide educational opportunities from the Institute of Real Estate Management (IREM) or the local NAA affiliate.

TIP

If possible, conduct a final interview at the property, and have the applicant walk you through the steps they would take for some common situations or challenges that you present them. This process allows you to determine whether they really do have the experience they claim and gives you insight into their logic and ability to handle real-world issues that arise at your property. Also, with the advent of computer-based property management software, which handles tasks such as marketing and advertising, prospect screening, rent collection, and unit prep and maintenance, you want your applicant to demonstrate that they know how to use your specific software or at least a comparable competitor.

Hiring an employment-screening firm

Ever-changing, increasingly restrictive employment-screening regulations are creating a strong demand for employment-screening firms. I recommend using these firms, particularly those that specialize in the rental housing industry, whenever possible, especially if you own a smaller rental property and don't routinely recruit, screen, and hire employees.

WARNING

Be wary of employment-screening firms that claim to be able to conduct a single national criminal database search. The databases used nationally for criminal background checks are evolving, but some states still make criminal records searches available only at the county level. Also, the statewide data typically includes only felonies, not serious misdemeanors (defined as some levels of assault or theft, vandalism, prostitution, or sexual misconduct), so the most thorough information must still be gathered on a county-by-county basis. Though the ability to conduct comprehensive employment screening is improving, the reality is that federal, state, and county law enforcement bureaus have outdated systems and don't always share information with one another.

I recommend specifying that you want your employment-screening firm of choice to conduct a criminal background check in every county where your prospective employee lived, attended school, and worked. This type of check costs more, but it's a good investment that pays dividends and offers peace of mind in the long run.

Knowing your responsibilities

Being an employer has serious legal obligations and requirements. Besides being responsible for wages, employment taxes, and reporting, you're accountable for supervising your on-site manager (or any employee) and can be held liable for their actions. Make sure that your manager always abides by all fair-housing laws, acts within the scope of their job description and level of authority, and has basic knowledge of landlord–tenant and health and safety laws in your area.

The right on-site manager can make all the difference in the world between success and headaches. Be very competitive with your compensation; use recognition rewards and financial incentives that acknowledge positive results, such as low turnover, minimal lost rent due to vacancy and bad debt, and efficient expense control. A competitive compensation package is a wise investment that allows you to hire and retain the best on-site manager.

Employees are typically paid a salary or hourly wages. The exact amount varies based on responsibilities and work schedules, but you must always meet the minimum wage requirements in your area. You may be able to contact other rental property owners or your local NAA affiliate to obtain information on the wages and benefits you need to offer to stay competitive.

WARNING

You're also responsible for your employee's tax withholdings, Social Security contributions, federal and/or state unemployment insurance, and workers' compensation insurance. Never agree to pay an employee in cash or in any manner that doesn't cover all the proper deductions for payroll burden, because you can be held responsible for paying all these sums (even the employee's share) if you're audited. Federal and state agencies look for abuse in the rental housing industry, where cash compensation is prevalent, so be sure to comply with the laws.

TIP

To get all your paperwork in order, you need an Employer Identification Number (EIN), and I suggest that you get a copy of IRS Publication 15, "(Circular E), Employer's Tax Guide." You can get both the number and the publication by calling (800) 829-4933 or visiting `www.irs.gov`.

Although some states don't require you to carry workers' compensation coverage (insurance that pays employees and covers their medical expenses if they're injured or become ill as a result of their jobs) unless you have a minimum number of employees, I advise carrying it even if you don't have any employees. Although any contractor you hire to perform work on your property should have their own workers' compensation policy to cover all their employees, if someone gets hurt, and the contractor has limited or even no coverage, you can bet that the injured employee will come after you for compensation. Don't take chances. You can often add this insurance to your standard policy for a nominal cost. Work with an attorney to make sure you're in full compliance with your state's workers' compensation laws.

TIP

Many rental owners prefer to have payroll handled by an accountant or a firm that specializes in this service. But you can also use an employee leasing company as the employer of record, an organization that's responsible for payroll, taxes, workers' compensation, benefits, deductions, regulations, and reporting. You can pay the firm with a single check and let it deal with the paperwork. Check with your local IREM chapter or NAA affiliate for referrals.

Working with your manager

You have to walk a fine line between being an involved and caring rental owner and an overbearing micromanager who inhibits your on-site manager from running the property properly. Good managers treat the property as though it's their own and make a major effort to keep it in excellent condition to maximize its net income. Many incompetent managers do only what they're forced to do. Stay out of the way of the good manager, and terminate the bad or uncaring one. Better, learn how to find, hire, and retain a good manager, and avoid hiring one who doesn't care.

POSTING ALL THE LEGALITIES

Federal law requires all employers — yes, even if you have just one employee — to display posters explaining employees' legal rights. This signage "must be posted in a prominent and conspicuous place in every establishment of the employer where it can readily be observed by employees and applicants for employment." Federal informational posters include the following topics:

- The Employee Polygraph Protection Act
- The Fair Labor Standards Act)
- Job Safety and Health: It's the Law
- The Uniformed Services Employment and Reemployment Rights Act

The following federal posters should be visible based on certain conditions:

- Equal Employment Opportunity Commission: (Post this signage if you have 15 or more employees, including part-time and temporary workers.
- Family and Medical Leave Act: Post this signage if you have 50 or more employees in a 75-mile radius.

Some of the mandatory posters are available at no charge at `www.dol.gov/general/topics/posters`. Be sure to check whether your state has additional requirements or posters that supersede the federal law.

REMEMBER

Your on-site manager must have the tenants' respect to collect rents, deal with problems, and respond to maintenance service requests. Back up the manager whenever possible. Your manager must earn respect from you and the tenants, however. Backing up a manager when they're wrong can create a much larger problem.

When dealing with tenant complaints about your on-site manager, remain neutral, and calmly investigate the facts before getting back to the tenant with a formal response. Never ignore a tenant's concerns, but be sure to balance the need to investigate the complaint with well-reasoned trust of your employee.

Staying on the alert for danger signs

WARNING

As I mention throughout this chapter, having employees increases your liability, particularly when it comes to violence and sexual harassment. Keep your eyes and ears open so that you don't miss the following danger signs:

- Although it doesn't happen often, be careful if you have any indication that your employees display abusive tendencies, intimidate or threaten people, or show any signs of violent or disruptive behavior. You aren't always liable if one of your employees threatens or harms someone, but workplace violence is a concern throughout the country, and rental housing employees are often in positions of authority, with access to personal information and rental units. Watch for any signs of coercion, retaliation, threats, illegal possession of drugs, or illegal possession and/or use of weapons. If you become aware of any of these signs or if you find out about attacks or convictions for violent crimes, immediately contact your employment law specialist for advice on the proper response, which may include a written warning or the employee's immediate termination.
- Sexual harassment is generally defined as any "unwelcome, unwanted, non-consensual act of a sexual nature against a person," and such claims by tenants against managers, other management employees, or third-party contractors and vendors (or even other tenants) are a growing concern for rental property owners. You need to have a clear, firm, written, zero-tolerance policy on sexual harassment, and you must promptly and fairly investigate any complaints. Cases of employee or contractor and vendor misconduct have been a problem for years, but the proliferation of deliveries to tenants has increased the opportunities for such claims. Recent litigation against owners is making this matter even scarier when one tenant accuses another tenant (or a delivery person) of sexual harassment and alleges that the owner or manager either condoned such actions or failed to take proper steps to address the concerns. This territory is dangerous, so don't jump to conclusions; balancing the need for a prompt, accurate investigation with the rights of the accused people can be difficult. Immediately contact your attorney for advice when you're told about any sexual harassment allegations.

Firing an employee

In virtually all situations, you have the right to terminate an employee at any time as long as you don't do so for an illegal reason. You can fire an employee who hasn't performed their job (for reasons including committing acts of discrimination, sexual harassment, or retaliation against a tenant or prospective tenant). But you

can't fire an employee who is a member of a protected class without good reason. As with any employment situation, document any concerns about job performance in writing, and discuss them with the employee as soon as possible. Have the employee sign the statement as proof that they are aware of the allegations and acknowledge your discussions with them. If they refuse to sign, make contemporaneous notes of their refusal and paraphrase any comments they made in response.

REMEMBER

If you need to fire an employee, be prepared to show that the termination was for cause and was carefully documented and that you fully complied with all disciplinary steps in your employee handbook or manual (if you have one). Reasons for terminating an employee include

- Dishonesty
- Failure to follow the written job description
- Participation in illegal or criminal activity
- Failing to perform tasks safely or without using proper protective equipment, creating serious health and safety risks for themselves or others
- Poor job performance
- Theft or conversion

Although the logistics of terminating your employees probably aren't on your mind when you hire them, you need to have clear, written documentation about the process of parting company, particularly for on-site employees. Rental property owners often have legitimate concerns that a terminated on-site manager or other on-site employee may cause problems. Because they typically receive a rent discount, these ex-employees may take their time relocating unless you have a clear policy up front.

TIP

Keep a written agreement clearly indicating that the rental unit is a condition of and incident to employment. Any rights to occupy the unit cease upon an employee's termination. Although some people advise giving on-site employees 24 hours' notice to vacate, I believe that giving them three days to one week is reasonable, particularly because these folks are now unemployed and likely very toxic to be around. You can always be flexible, but have a holdover rent clause in place that calls for rent at the rate of 125 percent of the current market rent as an incentive for former on-site staff to relocate quickly. Although the utilities should be in the employee's name, if these items are included in their compensation for any reason, be sure to require them to put utilities in their own name immediately.

INDEPENDENT CONTRACTOR VERSUS EMPLOYEE STATUS

As a rental property owner, you may routinely receive assistance from casual labor or workers who perform jobs such as cleaning, painting, minor maintenance, and landscaping. *Casual labor* is a common term used to describe workers who perform a variety of tasks, usually on a part-time or temporary basis. These workers are classified as either independent contractors or employees. You're responsible for the employment taxes of your employees, but independent contractors pay their own employment taxes. The advantage of classifying these workers as independent contractors is obvious. But the IRS is investigating businesses that traditionally use independent contractors to make sure that they're not classifying employees as independent contractors incorrectly.

The IRS has established detailed, comprehensive requirements to qualify as an independent contractor. Among these requirements, workers must provide their own tools and equipment, pay their own business and transportation expenses, hire and pay any assistants, offer services to the public at large, perform their services in such a manner that they have control of the process and the outcome, and be in a position to incur a loss as a result of their work.

Most on-site managers, and possibly other maintenance workers, can't meet these stringent requirements. They usually are paid a salary or an hourly wage, work under the guidance and control of the rental owner or property management firm, and follow set hours and specific job responsibilities.

Check with your attorney or accountant, but my advice is to avoid structuring your relationship with your on-site manager as anything other than an employer–employee relationship. If the IRS or a state agency later determines that your independent contractor was really your employee, you'll be liable for back taxes, penalties, and interest. To make matters worse, you also must retroactively pay the employee's share of these employment taxes. See IRS Publication 15-A, "Employer's Supplemental Tax Guide," for more information.

Building Your Contractor and Vendor Dream Team

Every rental property owner depends on contractors and vendors to assist with the proper management of the rental units. The real challenge for many owners is finding the right people or companies for the job and ensuring that they're paying

a competitive price for quality services or materials. Not to worry, though. The following sections can assist you in assembling your team.

REMEMBER

Whoever you hire, be sure to have them sign a W-9 form before they start work, as you will need to issue an IRS Form 1099-NEC, "Nonemployee Compensation," at the end of each calendar year to each independent contractor or vendor who isn't incorporated and who was paid more than $600. Note, however, that a person who operates as a limited liability company (LLC) sole proprietorship should also receive a Form 1099-NEC. Before 2020, such payments were reported on IRS Form 1099-MISC, which still exists but is now limited to payments that typically are not related to real estate.

Recognizing what to look for

Having a list of competent and reliable contractors, vendors, and suppliers who price their services and materials fairly is crucial to maintaining your sanity as a rental property owner. You can count on these high-quality workers and firms for any need that arises at one of your rental properties. Unfortunately, finding them can be a real challenge, and you may be wondering where to turn. Locating and screening vendors is a constant process because the best contractors are often so busy that they can't handle all the work, leaving you to find another contractor.

You typically pay a major portion of your overall expenses to contractors and service providers, so spending these dollars wisely is important. You must ensure that the contractors are honest, dependable, and competent. To locate the better contractors, check with other property owners or the product service council of your local NAA affiliate or IREM chapter. You can also use online services such as Angi.com (formerly Angie's List), Thumbtack.com, and Houzz.com, but these sources haven't developed a niche in the rental housing industry and are more for homeowner projects. Look for a contractor or vendor with a proven track record, all required insurance, a local business license and/or state contractor's license (if required), and a minimum of three to five years of experience. Also be sure to obtain several references for work close to the same size and scope as your project, and call those references before signing on the dotted line.

When you find a contractor, start them on a relatively simple job, and supervise them carefully so that you can see the quality of the work firsthand and avoid any billing surprises. If you own one unit or only a few rental units, you have too much at stake and can't afford any problems or delays.

WARNING

Giving a contractor unlimited, unsupervised access to a rental unit can be dangerous, because you usually have little if any personal background information on the contractor or their employees. Likewise, don't hire day laborers who congregate in front of a home improvement or building supplier store; the savings are illusory, and the risks are tremendous.

In addition to requiring good work, dependable response, and competitive pricing, you must insist that contractors provide copies of their certificates of insurance, including current and adequate workers' compensation and liability insurance coverage. Contact your state contractors licensing board to ensure that your vendor's license is current and that they have any required bonds. This information may be available on your state's official website. Even if you find a listing, make sure that the person or company is the exact same one as the license holder. (Many rogue unlicensed contractors use fake or stolen license numbers — often entities with similar names that can fool people who aren't extremely careful in performing their due diligence.)

Avoiding common pitfalls

I've found that the classic statement "You get what you pay for" is painfully true when it comes to working with contractors and vendors. Many rental property owners are so concerned about keeping their expenses down that they get into trouble by selecting contractors based strictly on pricing. Pricing is important, and the profit margins in rental housing require diligent conservation of financial resources, but you don't want to skimp on hiring contractors and vendors.

WARNING

To avoid potential problems down the road, watch out for the following:

- **Bids that are much lower than others:** The bid may be fine, but make sure that you're not asking for trouble by hiring an unlicensed, uninsured contractor who doesn't pay or properly insure his workers. Avoid a painful lesson: The cost to have another contractor clean up an unqualified vendor's mess isn't worthwhile.
- **Contractors who don't have full-time employees:** Some firms hire day laborers who don't have the required job skills, safe work practices, or protective equipment. If something goes wrong, you can count on being on the wrong end of a claim or lawsuit.
- **Contractors who don't supervise their employees:** Make sure that your contractors supervise their employees properly and require them to leave the work location in a safe condition every day so no one gets hurt. They should remove all debris from your property upon completion of the project. Be sure to hold them accountable if they do any damage to your property or to a tenant's property or possessions.
- **Products and services that barely meet your minimum requirements or far exceed what you need:** You want to find products or services that meet the bare minimum but also hold up under typical rental conditions. Overspending on customized or indulgent upgrades is wasteful and doesn't justify the added expense.

- **Quotes that aren't competitive or bidders who don't use identical specifications:** Have the firm with the best reputation and qualifications set the bid's scope, specifications, and proposed time schedule. Then you can let the other competitors bid based on the same information, with the pricing redacted.

  Not sure how to craft a request for proposal? Go to `www.wiley.com/go/propertymanagementkitfd4e` to access a sample request I created for a major landscaping project. You can modify this document for any type of project at your rental property to ensure that you receive competitive quotes and that all the bidders quote on the same specs.

- **Service contracts with odd terms:** Some contractors or vendors propose multiyear contracts or ones with an automatic renewal clause (called an evergreen clause). The contractor hopes that when the contract is in place, you'll forget the renewal date and the contract will renew automatically, including rate increases, which are usually allowed per the terms. I strongly recommend avoiding any service contract that you can't cancel, with or without cause, upon 30 days' written notice. Even if you must pay a penalty to terminate the contract prematurely, you always want to have this option. Avoid service contracts with odd terms by having your attorney review all contracts before you sign them.

  Also, although vendors initially say otherwise, all terms of the service contract should be negotiable. Unless this contractor has a monopoly in your area, seriously consider hiring another if the one you're talking with refuses to negotiate.

- **Unclear billing and/or payment expectations:** Payments should be made when the work is done and generally should be due in 30 days. If you're contracting out a large project, you may want to authorize progress payments, but always withhold at least a 10 percent retainer for your final walk-through upon completion. Even if you're a small landlord, contractors will give best customer service to those who pay promptly.

- **Vendors who demand payment before the work is done:** Never pay for services in advance unless the work requires some special order or customized product. Even then, pay only a small deposit commensurate with the cost of the product or materials that must be purchased in advance. Unethical contractors have been known to demand large payments and then suddenly file bankruptcy or leave town. Don't be a victim. Check with your state contractor-licensing board for any dollar limits on advance payments required by contractors.

HIRING YOUR TENANT AS A CONTRACTOR — OR NOT

Although hiring your tenant to perform work on your property can be very tempting, in most cases, you shouldn't. Your tenant isn't likely to possess the skills, experience, knowledge, qualifications, tools, or equipment to complete most repair work properly. You may also find that the job just doesn't seem to get done in a timely manner or that the tenant has unexpected cost overruns that can be corrected with an additional rent credit. Another downside is that you'll likely be responsible if your tenant gets injured or injures someone else, so make sure that they have workers' compensation insurance or at least a decent health insurance policy.

If you do hire a tenant for any work that they're qualified to perform, handle it separately from the lease or rental agreement, and pay (with a check) only upon satisfactory completion of the job.

IN THIS CHAPTER

- Setting up a maintenance plan for your residential rental property
- Knowing what types of maintenance problems you're likely to face
- Responding professionally to your tenants' maintenance requests

Chapter 18
Maintaining the Property

Maintenance — the work required to keep something in proper condition or upkeep — is just part of the territory when you own residential rental property. Regular maintenance not only helps you keep your property in habitable condition, but also is a standard legal requirement. As a rental property owner, you're legally required to maintain and repair your property properly to meet all building, housing, health and safety, and habitability codes — in legalese, the *implied warranty of habitability.* In plain English, it means that from the day the tenant moves in until the day the tenant moves out, you must keep the rental property in a safe, habitable condition. (The term *rental property* in this case includes the exterior yard or grounds of single-family homes and the exclusive-use common areas of multifamily rentals in addition to the property's interior.)

In this chapter, I explain why a good maintenance plan is essential for all residential rental properties. I also cover the most common types of maintenance and detail some sound procedures for handling property maintenance and saving money.

TIP

If you hire and oversee a contractor or maintenance person instead of doing the work yourself, find out enough about basic maintenance so you can make sure that whomever you hire is doing a good job.

Recognizing the Importance of a Maintenance Plan

One of the most common reasons why dissatisfied tenants leave a residential rental property is the rental owner's failure to respond to their basic requests for maintenance. But you can use this disappointment to your advantage when you show your well-maintained rental unit by informing your prospective tenants about your system for addressing maintenance issues promptly. If you have a solid maintenance plan in place, you'll consistently command higher rents and have much lower turnover thanks to satisfied tenants staying longer.

In 2003, a friend of mine conducted a survey of more than 8,000 residential tenants. More than 34 percent of the respondents said that prompt maintenance was the most important quality they looked for in a rental property — twice as many who cared most about dishwashers, washers and dryers, or new carpet. When you demonstrate pride in your property by maintaining it, your tenants will partner with you to do the same.

A good maintenance plan includes regularly visual inspections of the exterior property. The frequency of these inspections varies depending on the location, type, age, and condition of your property, but you should perform them at least semiannually and again upon tenant turnover.

A customized property inspection checklist for each property is a good management tool, especially when you are doing your first inspections. Over time, you'll have the basics down, so you can follow the script and note only the items of concern that require attention. Go to `www.wiley.com/go/propertymanagementkitfd4e` to access a sample apartment exterior inspection report for the exterior of a small apartment building.

When you follow a maintenance plan, you can control your expenses and keep them to a minimum because you greatly reduce the need for emergency or extraordinary repairs (which always cost more). Things break and need to be replaced. Light bulbs burn out, for example. Purchasing the right replacement bulbs in bulk at a good price and having them in stock ensures that you don't waste time running to the hardware store (and possibly paying full retail price) to buy one bulb. Your time is valuable, and you don't get the best pricing when you buy items individually. In your plan, you should have the names of contractors and suppliers on hand so that you can have the proper repair done the first time instead of having to fix a botched job. You've probably seen a sign in a service repair shop that says something like this: "Repairs: $50 per hour. Repairs (after you tried to fix it yourself): $100 per hour."

Because long-term, satisfied tenants are the key to financial success, you need to maintain the premises properly to avoid operating losses and potential legal problems. An ill-maintained property leads to higher tenant turnover and tenants of progressively lower caliber who are willing to accept the property's poor condition. A tenant can also use the property's shoddy shape as a reason to call the local housing inspector, withhold rent, vacate in the middle of a lease, defend an eviction, or even sue under state laws or special slumlord or habitability statutes in most urban areas. Unhappy tenants talk, and bad news travels fast and far, especially on social media and many online rating sites. You can quickly develop a horrible reputation that will be difficult to overcome if you don't make tenant satisfaction and good maintenance a priority.

TIP

Although doing so isn't required, consider taking a proactive approach to maintenance. You can include a clause in your rental contract that allows you access to the unit's interior to conduct an annual property inspection walk-through. Most tenants cooperate fully, but a few states prohibit you from entering just to inspect the unit without the tenant's permission. In these cases, or as an additional tool to improve your tenant relations, you can send your tenant a nonintrusive note and maintenance checklist that allows for a quick response. Implementing this policy can protect you from claims of poor maintenance, allows for repairs when problems are small, and keeps your good tenants satisfied. This policy doesn't absolve tenants from their ongoing responsibility to notify you immediately in writing of any concerns or needed repairs so you can respond promptly.

REMEMBER

Your tenant has a responsibility to maintain the premises in a clean and sanitary manner and to use the premises properly, in a usual and customary fashion. Always hold the tenant financially accountable for any damage caused to the property by negligence or misuse.

Being Prepared for Maintenance Issues

Rental properties require several types of maintenance, and you're sure to run into all of them at one time or another. Although every type of maintenance is critical, you need to respond to and handle each one in a unique way. The following sections address how to prepare yourself for the plethora of maintenance issues you'll encounter as a rental property owner.

REMEMBER

My first employer in property management taught me the saying "To own is to maintain." This saying is worth keeping in mind when you have to do maintenance work on your rental property.

Emergency maintenance

Part of being a residential rental property owner is being prepared for emergency maintenance requests at all hours of the day (or night!). When you receive a maintenance call from a tenant, first determine whether the request really is an emergency. *Emergency maintenance* is work that you must do immediately to prevent further property damage or to minimize the chance of endangering people. The most common maintenance emergencies typically involve plumbing, electrical, building envelope (the entire exterior or shell of a building that repels the elements – foundation, walls, roof, doors/windows), or access control or security problems.

In a maintenance emergency, immediately advise the tenant of what steps to take to limit any further damage. If a pressurized pipe is leaking, for example, tell the tenant to shut off the water supply at the angle stop nearest the source or, better, at the water meter; this simple step can prevent further water damage. Instruct tenants not to use appliances or electrical systems that are malfunctioning until they've been inspected or repaired. Your tenant needs to know that you or your designated on-call person must be contacted immediately if there is an issue with the building envelope, such as a leaking roof, broken windows or doors, or other condition that could cause damage.

TIP

If a fire, flood, or gas leak ever occurs at your property, or if a natural disaster hits the area, shutting off the utilities immediately may be imperative. Prepare charts and simple diagrams for each property, indicating where to find all utility shut-off locations and the tools necessary to operate them, as well as instructions on which situations warrant shutting the utilities off. Always include the emergency phone numbers for the utility companies so that your tenants can contact them immediately.

WARNING

Tenants should attempt to shut off the utilities on their own only if the utility company or your own handyman or contractor isn't available and the situation warrants immediate action.)

In many parts of the country, you may need to remind tenants that freezing outdoor temperatures can lead to water damage in unheated rental units. Tenants may want to turn off the heat when they go to work or when they're on vacation as a way to save money. But turning off the heat completely, leaving a window open in subzero temperatures, or setting the thermostat below 40 degrees can lead to freezing and bursting pipes, which can cause flood damage to floors, walls, and ceilings. I suggest that you make heating the rental unit to a minimum of 50 degrees a requirement in your rental contract, and send out a newsletter or reminder letter when cool weather begins.

TRUE STORY

DON'T LET THE PIPES FREEZE

I serve as an expert witness in cases throughout the United States, including many in areas where freezing temperatures are prevalent most of the year. Recently, I had a case in which the damages were incredibly high from the flooding of a luxury cabin in Angel Fire, New Mexico; the water pipes had frozen, but the water supply lines were left open. As the area thawed, the water began to flow, and the leak went undetected until the cabin was essentially a complete loss.

In a case in Teton Village, Wyoming, propane tanks fed the boilers that provided the domestic heating of the condominium units, but those tanks were depleted, and the boilers automatically shut down. Before anyone in maintenance noticed that the boilers had shut down due to a lack of propane fuel, several unoccupied units on the upper floors became so cold that their domestic water supply pipes froze and cracked. When the propane supply was replenished, the boilers began operating again, and the condominium units warmed up, water began flowing through the cracked pipes and ran down through the lower floors of the building, causing extensive damage.

Preventive maintenance

A sound preventive maintenance program can reduce the number of maintenance emergencies at your property and enhance your cash flow. *Preventive maintenance* is regularly scheduled inspections and maintenance that extend the operating life of a property's building systems. Although preventive maintenance requires your tenant's cooperation, it often includes annual maintenance surveys or inspections of the unit's interior.

TIP

One great example of preventive maintenance is regularly lubricating the motors and replacing the filters in heating and air conditioning systems. When performed annually on a service contract, this maintenance is very inexpensive, and the lubricated motors and clean filters lessen the strain on the equipment so that it lasts longer and operates with greater energy efficiency. Another example is periodically replacing the ball-cock assemblies in toilet tanks. Especially if you pay the water bill, you want to make this inexpensive replacement at least annually; it can minimize the chance of running toilets, which are the most common source of significant wasteful increases in water use in a home or apartment. While you're in the bathroom doing this work, plan to replace any old (especially rigid metal corrugated) toilet supply lines with new braided flexible stainless steel supply lines, but only after you shut off the water supply.

Preventive maintenance can address problems when the conditions are still minor, thus saving future emergency repairs or replacement. It also reduces the cost of maintenance labor; maintenance personnel can work more efficiently when they have all the necessary tools, parts, and supplies on hand. According to a study by the Institute of Real Estate Management, 80 percent of the cost of most maintenance repairs covers labor, and only 20 percent covers parts and supplies. If you're replacing one exterior light bulb at the entry to your rental property, and doing so requires a ladder and special tools to open the fixture, why not replace both bulbs while you're there? Be sure to clean the fixture too.

TIP

For even more savings, schedule preventive maintenance work during a contractor's slow season so that you can obtain favorable pricing. Schedule your roof inspection and any waterproofing repairs during the dry season, for example. Tree trimmers get very busy right before the fall and winter storm seasons, so you might get a discount if you let the contractor pick the time to perform their work (within a two- or three-month time frame) so that they can keep their crews working efficiently. This is especially true with so many contractors and vendors facing a skilled employee shortage due to the pandemic, plus the high cost of employees due to minimum wage and required benefits deterring hiring beyond just the level of staffing they can keep fully engaged and its effect on the job market.

A temporary shutoff of utilities (particularly water) is often necessary in emergencies or while performing preventive maintenance and repairs at your property. Advising your tenants in advance, in writing, can minimize their inconvenience and any requests for rent credits. The courts generally allow reasonable utility shutoffs as long as you're diligent in making the necessary repairs in a timely manner. (***Note:*** You should have a clear understanding with your service contractors that they need to work efficiently and to the extent possible have all utility services back to full working condition at the end of each workday.)

WARNING

Upon receiving notice that their water will be shut off temporarily, some tenants may fill containers with water and then forget to turn off the spigot. During a water shutoff, an open spigot is fine, as no water is flowing, but if the tenant is not in the rental when the water comes back on, flooding can occur when sinks overflow. I have seen the results of this situation, and it is never good, especially on an upper floor, because the water also does extensive damage to lower floors.

Corrective maintenance

Although planning and performing preventive maintenance work is usually cheaper than fixing or replacing items, the reality is that if something breaks, you must fix or replace it in a timely manner, which is what *corrective maintenance*

covers. Consequently, the most common tenant maintenance requests are for corrective maintenance. If you respond promptly and professionally, you'll earn a reputation as a good rental property owner.

Even with the best preventive maintenance in place, corrective maintenance is a normal part of any maintenance program. Anything in a rental unit can, and eventually will, break or need attention with normal use, including toilets and sinks that clog, roofs or windows that leak, doors that stick, and appliances that malfunction. Most tenants realize that stuff happens, and the key to tenant satisfaction often depends on whether you have a system for accepting and responding to tenant maintenance requests efficiently. The reputations of great companies are based on how they respond when things require attention. See these situations as being opportunities to build loyalty among your customers: your tenants.

TIP

Although there are a variety of ways to communicate urgent maintenance requests, email is the most popular among both owners and tenants for many nonemergency maintenance situations. Email (or text messaging) works well for owners, who prefer not being interrupted by a phone call at a potentially inconvenient time. It also works well for tenants, who appreciate being able to send a request at any time of the day or night instead of having to wait until normal business hours to reach you. Upon receiving an email or text, you can reply with a confirmation or ask for more details. You can even forward this communication directly to the maintenance contractor who'll be handling the service request. Either way, be sure to get the tenant's permission (preferably written) to enter the unit to fix the problem, and keep the tenant informed about what will be done to remedy the situation.

WARNING

Although text messages are certainly among the most useful methods of communication in emergency situations, if you receive and send texts regarding maintenance issues, you must have written documentation of these communications in case you're ever involved in litigation. You need to print and securely save all text messages, send the texts to yourself in emails that can be saved for posterity, or avoid communicating via text messages as much as possible. Unfortunately, some property owners and managers who relied on text messages have no proof in court years later that they responded to emergency maintenance issues in a timely manner.

Custodial maintenance

Custodial maintenance is the regular, day-to-day upkeep of the property and the most frequent type of maintenance. The curb appeal and physical appearance of your property and grounds depend on regular patrolling and cleaning. In single-family rentals, the tenant typically handles this duty, and you should include the

specific responsibilities in your rental contract. In larger rental properties, an on-site manager, maintenance worker, or groundskeeper should be responsible for daily inspection and cleaning.

TIP

Keep a list of routine maintenance items, including washing windows; cleaning parking areas, driveways, and walkways; and performing other tasks that keep the property's interior and exterior clean and presentable. Don't forget to keep the mailbox area and trash/recycling bin areas clean and free of litter as well.

WARNING

The number-one complaint of tenants and the bane of all rental owners is deferred maintenance. Not really a type of maintenance at all, *deferred maintenance* is the result of obviously needed repairs that landlords didn't address in a timely manner. Common examples are peeling paint, rusting metal, broken screen doors, frayed carpet, cracked tile, overgrown landscaping, and minor roof leaks in the garage. Although every property has some deferred maintenance, your goal is to keep it to a minimum.

Cosmetic maintenance

Properties with great visual appeal are easier to manage and generate higher returns on your investment. So if you're willing to spend money to improve the unit's appearance both inside and out, you'll reap the rewards of *cosmetic maintenance,* such as replacing old countertops, installing new light and plumbing fixtures, repainting, and installing new window coverings.

TIP

One of the most common complaints tenants make is that their landlord refuses to paint the property's interior every few years. Except for local rent-control ordinances or the mitigation of lead-based paint, no federal or state laws require you to repaint the unit after any certain period for strictly cosmetic reasons. Repainting the unit to keep your tenant satisfied if they're willing to pay more rent may be a good idea, of course. Repainting can also be a great lease renewal tool for a long-term tenant, but you need to be sure you're willing to cover the added costs of moving, protecting, and replacing the tenant's furniture and possessions.

Handling Rental Property Maintenance

Even though you may be assertive in maintaining your rental property through regular inspections and diligent interior maintenance upon tenant turnover, you'll always need to make repairs. To help you deal with this fact of property management life, the next few sections cover the important pointers you need to remember.

Responding to tenant maintenance requests

In many industries, the companies with the best reputations and customer loyalty are those that address complaints efficiently and with a positive attitude. The rental property business is no different.

The first time you're likely to hear about a maintenance problem or needed repair is when your tenant contacts you. Typically, a service request comes to you via phone, email, or text. Although you need to be respectful of your tenant's time, you also need to ask questions to gather a detailed description of the necessary maintenance and the precise location of the problem. This information allows you to make an educated decision about the problem's urgency and the proper person to handle the repair work. It also gives you the chance to confirm that the proper tools, equipment, and parts are available at the first service call, if possible.

TIP

Make sure your tenants know that they can't contact your maintenance person or contractor directly. A tenant may think they're doing you a favor by contacting the maintenance person directly and not hassling you about the problem, or they may remember another problem when the maintenance person is in their unit working on something else. Either way, require all service requests to be routed through management, because you need to have a written record of all work requested and completed. Then, whenever a tenant contacts you with a maintenance problem, you can record all information in writing on a maintenance request form (see Figure 18-1), regardless of how insignificant the problem is. To access a sample tenant maintenance request form, go to `www.wiley.com/go/propertymanagementkitfd4e`.

Having proof that the tenant gave permission for maintenance personnel to enter the unit is essential. This proof can be visual (such as the tenant's signature or a copy of the request in email or text form) or verbal (such as approval given over the phone). If the tenant makes the request only verbally, note the date and time and who gave permission to enter. If the tenant didn't specifically give permission for a maintenance person to enter the unit, serve a notice of intent to enter rental unit, as legally required in your area. Go online to `www.wiley.com/go/propertymanagementkitfd4e` to access a sample notice of intent to enter rental unit.

REMEMBER

If you rely on an outside firm to handle your tenant maintenance requests, make sure that all personnel who may be entering your tenant's unit are licensed and bonded. (Flip to Chapter 17 for tips on finding good contractors.) If your maintenance staff is on your payroll, this requirement doesn't apply.

Maintenance Request Form

_____ Maintenance Request Number _____
Date

_____
Name

_____
Street Address Unit number, if any

_____
City/State/Zip Code

_____ _____
Home Phone Work or Alternate Phone

Service Requested (Describe very specifically):

_____
_____
_____
_____
_____
_____

Best time to perform service (Day and time): _____

Authorization: Owner/Agent/Service personnel are authorized to enter rental unit if Tenant is not present unless specific instructions have been given in advance to the contrary.

_____
Signature of Tenant

If verbal approval received, given by: _____. Received by: _____

Report of action taken
____ Completed, by _____ (Upon completion, describe problem/work done/materials used)
_____
_____
_____
____ Unable to complete on _____, because _____
____ Outside professional assistance required, because _____
____ Will return to complete on _____

Charge cost to Tenant: _____ Yes _____ No If Yes, Reason _____
_____

Comments: _____
_____
_____

Received: _____ _____
Date Owner/Agent

FIGURE 18-1: Tenant maintenance request form.

Courtesy of Robert S. Griswold

TIP

Enter all tenant maintenance requests in a master log in chronological order. A good maintenance tracking system does much more than just record the service request and the fact that the tenant granted permission to enter. It can also provide proof that the repairs were made, record the parts and materials used for the job, and serve as the basis of a billing record if the tenant caused the damage and

needs to be charged for the service call. (See Chapter 21 for the scoop on computer software programs and manual maintenance tracking systems that simplify the paperwork.)

Always archive copies of tenant maintenance request forms in the tenant's file and in a separate permanent maintenance file for each rental unit. If the tenant complains to authorities or makes allegations of a breach of habitability, tenant maintenance request forms provide a repair history you can use to document that a tenant made a certain complaint and that you addressed it properly.

REMEMBER

Your maintenance personnel and contractors are key in giving your tenants a positive or negative impression because they have direct contact with your tenants and are a reflection on you. Remind your maintenance pros that they're entering your tenants' homes and therefore must identify themselves properly by using photo identification. They must always be appropriately dressed, well groomed, respectful, and courteous, and they should never smoke in a rental unit, unoccupied or not. They should also remove or use protective coverings over their work shoes so they don't leave a trail across the tenant's clean floors. Your contractors must be businesslike and stick to the facts while keeping tenants informed about the status of the service request. They should completely clean up after themselves. Last but most certainly not least, they must treat all tenants professionally and equally; otherwise, you could wind up facing fair-housing discrimination claims.

WARNING

Although responding to tenant maintenance requests can lead to excellent tenant relations, some tenants may have excessive demands. The best way to handle these tenants is to remain calm and courteous and to address all legitimate health and safety items or maintenance repairs that preserve your investment. If tenant demands become unreasonable, trivial, and excessive, politely explain that providing extra service calls or cosmetic upgrades may necessitate an increase in rent to cover your additional expenses. But always respond, even if you think that the complaint is baseless; your tenant could be setting you up for an excuse to break their lease or withhold rent, or even to file a claim or lawsuit alleging that your rental property isn't maintained properly. This situation can be frustrating when your maintenance professionals report finding only minor issues or even nothing amiss. But be sure to have them record and even photograph (if possible) the conditions, especially if they believe that the tenant may be causing or contributing to the problem.

Keeping tenants from doing repairs

In most states, you can legally delegate some of your maintenance and repair tasks to your tenants, often in exchange for a rent reduction. You remain responsible for ensuring that the rental unit is habitable, however. Your tenants may be qualified and capable of handling many routine repairs, but you should retain control of even the minor maintenance problems.

REPAIR AND DEDUCT: REIMBURSING TENANTS IF REPAIRS AREN'T MADE IN A TIMELY MANNER

In most states, if a tenant gives proper notice of a defect, and you fail to address the issue properly and maintain the rental property in a safe and habitable condition after a reasonable period, the tenant has the right to have the defect repaired and then deduct some or all of the repair cost from a future month's rent.

If your state provides for the repair-and-deduct remedy, you need to fully understand the remedy's limitations and the rights and responsibilities of both you and your tenant. In most states, the tenant must follow a prescribed procedure to use the repair-and-deduct remedy, including providing proper notification to the rental owner and allowing them reasonable time to respond. Specific guidelines limit the types of defects covered, the number of times tenants can use this remedy, and the amount they can deduct (either as a set dollar amount or as a set percentage of the monthly rent).

Your goal should be to respond to legitimate complaints about the property promptly and make sure that all maintenance work is done properly at a reasonable cost. When the tenant resorts to the repair-and-deduct remedy, you can face unpleasant consequences. The tenant may attempt to do the repair or hire a contractor who isn't skilled. Even worse, the tenant may hire a contractor who's very skilled but quite expensive and then send the bill to you.

If you have a tenant who pays less than the full amount of rent, claiming that they had to have some repairs made without having given you any notice, you need to contact them immediately. Depending on the legitimacy of the circumstances, you can agree to the reduced rent this time, but inform your tenant in writing that they must bring all future maintenance issues to your attention. If you don't, you may find your tenant discovering new and ever-more-creative reasons to repair-and-deduct as a way to lower their rent. (It's a real warning sign is tenants attempt to charge you for their own labor.)

The bottom line? Always respond to maintenance requests, and seek to make repairs in a timely manner; then you won't have to face these problems to begin with.

Initially, allowing your tenants to handle certain minor repairs seems to offer significant savings in cost and aggravation, but most tenants lack the proper skills, training, tools, or motivation to do the job properly. They may be willing to ignore or live with a problem that can be resolved inexpensively. But that little problem may soon become a major problem and a major expense, which you're responsible for paying.

REMEMBER

Although your tenant may be able to handle many typical plumbing problems, be sure to instruct them to call immediately if the plumbing backup results in any amount of sewage overflow, which can be a significant health and safety risk. If plumbing clogs become common and aren't due to tenant misuse, they're likely the result of damaged pipes, roots in the waste line, or a blocked vent pipe. In such a situation, immediately have a professional correct the problem at your expense.

WARNING

Almost every rental property owner (especially if you have single-family rental homes) has a tenant propose to take care of the landscaping and the pool or spa. If your tenant is a professional landscaper or the owner of a pool service, lucky you! If not, don't allow a tenant to perform landscaping or pool/spa maintenance in exchange for lower rent. The landscaping at many properties can be worth tens of thousands of dollars — an investment that wilts to nothing if your tenant doesn't know how to care for it properly. Likewise, maintaining your pool or spa requires dealing with toxic chemicals that can lead to serious liability and costly repairs if they're not used by an experienced, qualified person. This guideline also applies to pest control beyond the household products available to the general public. Save yourself some hassle: Hire pros to service all aspects of your property and factor in their cost in your rent.

One of the main advantages of renting is that someone else is responsible for the property's maintenance and repair. Most tenants are relieved to know that you appreciate the opportunity to maintain the property properly and that they don't have to do a thing except alert you to problems when they arise.

Tracking the life span of your appliances

Rental property owners often overlook the fact that they have a major investment in the appliances in their properties. Next to the physical structure itself, the appliances are some of the most expensive components of a rental property. So knowing the average life expectancy of each appliance and some easy steps you can take to maintain an appliance properly (and often extend its usefulness) makes a lot of sense.

The average life of an appliance varies dramatically, based on the appliance's quality and the way the tenants treat it. Be sure to explain the proper use and care of all appliances to your tenants when they move in.

All new appliances come with manufacturer warranties that cover the cost of replacement or repairs if the appliances break down during the warranty period. Be sure to keep all appliance and equipment warranties, plus copies of all purchase receipts, in a readily accessible file for each property, with the address or unit number where the appliance is installed clearly displayed. Read the warranty

before attempting to make a repair yourself; otherwise, you may inadvertently void your right to have the manufacturer replace or repair the appliance or equipment for free.

TIP

After the basic warranty expires, many manufacturers offer extended service contracts for an annual fee, but these contracts generally aren't worthwhile if you have good-quality appliances and a reliable service technician at your disposal.

The following sections cover the life expectancies of some common appliances.

Dishwashers

Dishwasher tubs are made of plastic or stainless steel, but you may find a vintage porcelain-coated steel tub in an older property. Porcelain tubs rust out in 5 to 8 years if you have hard water, whereas plastic tubs (the most common type used in dishwashers in rental units) have a life expectancy of 10 to 12 years before they crack or fail. Unfortunately, this time frame is shortened if hard-water mineral deposits damage and clog the pump, the impeller, or the float switch. Higher-end models use stainless steel, but even on these, the most common problem is the need to replace rusted racks.

Regularly clean the filter and door seals, and run a cycle with a lime or hard-water deposit remover every few months for best performance. If you have a vacant unit, run the dishwasher every once in a while to prevent the motor and pump unit from freezing up or the seals and gaskets from drying out and becoming brittle.

Refrigerators

Refrigerators are among the few appliances that run almost continuously, but if properly serviced, they can last 12 to 15 years. For longer life and maximum energy efficiency, vacuum, brush, or clean the condenser coils and fan, usually located under the front bottom grill. You also want to make sure that the defrost drain is clear and the drip pan is clean. Routinely clean and periodically check the fridge's gasket by closing the door on a dollar bill in several places. If the bill moves when you gently tug it, replace the gasket.

When the appliance is in use, set the refrigerator temperature to 37–40 degrees Fahrenheit and the freezer to 9 degrees Fahrenheit. If you have an icemaker line, make sure that it's a flexible braided stainless steel supply line, and clean or replace the water filter every six months or as recommended. A crack or separation in this line can create a major flood and cause substantial damage.

Stoves and ovens

These appliances have the longest life spans of any household appliance and can last 20 years or more because most of their parts are modular. Replacing the drip pans, grates, thermostat, burners, elements, controls, switches, light bulbs, racks, and knobs is relatively easy. Check the gasket around the oven door periodically, and make sure that the exhaust fan is clean. Always use nonabrasive cleaners on all surfaces. Also, if the unit isn't built in, make sure that an anti-tip bracket has been installed properly.

Water heaters

This equipment can last 10 to 12 years with regular maintenance to maximize its energy efficiency and life span. Every three to six months, take a bucket and drain the water until it runs clear to remove mineral deposits and sediment that build up on the bottom and create a popping or crackling sound. Check the pressure relief valve, as well as all water lines and connections, and make sure that the flue assembly is aligned and tightly sealed.

For energy efficiency, buy a water heater with a thick, insulating shell, and wrap a thermal blanket around it to keep heat trapped inside. Natural-gas water heaters are generally much more cost-efficient than electric ones.

REMEMBER

With any natural-gas appliance, carbon monoxide can be a significant health and safety risk (see Chapter 19), so make sure that only an experienced and competent maintenance person or contractor services the unit. Also, call the natural-gas company to inspect the unit if you have any concerns.

Though the tenant should adjust the water temperature to avoid scalding injuries, make sure that the thermostat isn't set higher than necessary. Provide hot water throughout the property at a temperature of no more than 120 degrees Fahrenheit at the bathroom and kitchen taps, as recommended by the International Plumbing Code.

TECHNICAL STUFF

Note that hot water for disinfecting purposes, such as in a dishwasher, needs to be at temperatures of 140–150 degrees Fahrenheit to sanitize, which is too hot for domestic use because it can cause scalding burns. A dishwasher has internal heating elements that increase the temperature of the incoming 120-degree water to 140–150 degrees Fahrenheit to kill bacteria such as *E. coli* and *Legionella.*

Purchasing parts and supplies

As a rental property owner, you may have an uncanny interest in wandering through your favorite hardware store looking for obscure parts or flipping through a huge catalog for the latest sale on garbage disposals. Don't underestimate the importance of having reliable vendors with competitive pricing, because the ongoing maintenance and repair of a rental property greatly exceed the original construction cost.

TIP

You can receive trade discounts from most rental housing industry vendors and suppliers just by setting up accounts in the name of your rental property or management business. These discounts usually apply to all purchases, but you can often find special volume or bulk discounts for commonly used items.

WARNING

Don't fall into the trap of buying items in greater quantities than you can use immediately if the items don't have long shelf life, regardless of the great savings offered at the time. A common mistake property owners make is buying tons of the latest discontinued paint on sale, only to be stuck with bad paint when it comes time to touch up the unit upon tenant turnover. Use the same standard color on all rentals so that you can always find the color, buy in bulk, and do touchups as needed.

Another growing trend is purchasing parts and supplies online. Websites offer a wide variety of items, from appliances and plumbing and electrical fixtures to tools and hardware parts; they make the purchasing process very easy and typically offer free delivery. If you own just a few rental units, however, you may find that the savings are nominal unless you purchase in high quantities.

IN THIS CHAPTER

- Handling and minimizing crime at and nearby your residential rental property
- Enacting safety measures to reasonably protect your tenants and your property
- Shielding against environmental hazards

Chapter 19

Keeping Safety and Crime Prevention in Mind

As a residential rental property owner, it's essential for you to implement policies and crime-prevention measures for the reasonable safety of your tenants and their guests. Even if your property is located next door to the local police station, you still need to use and enforce proper building crime-deterrent measures. Crime can strike anywhere, even in "good" neighborhoods. And even if crime isn't a problem in your area, you may face potential safety challenges from Mother Nature. Take the lead in working with local experts to prepare for the natural disasters that may occur in your locale, including severe storms, wildfires, floods, hurricanes, tornadoes, and earthquakes.

Whether you're trying to ward off opportunistic criminals or are looking for ways to keep your property and tenants protected from hazardous environmental issues, I give you the suggestions you need in this chapter.

Tackling Crime in and around Your Rental Property

Crime is a reality for everyone, residential rental property owners and tenants alike. Tenants need to act prudently, but part of your responsibility as a rental owner is to make your property as reasonably safe as possible for your tenants and to alert them to their responsibilities as well. In the next few sections, I give you some tips for keeping crime to a minimum in your area and responding to it when it occurs.

Turning to crime-prevention programs

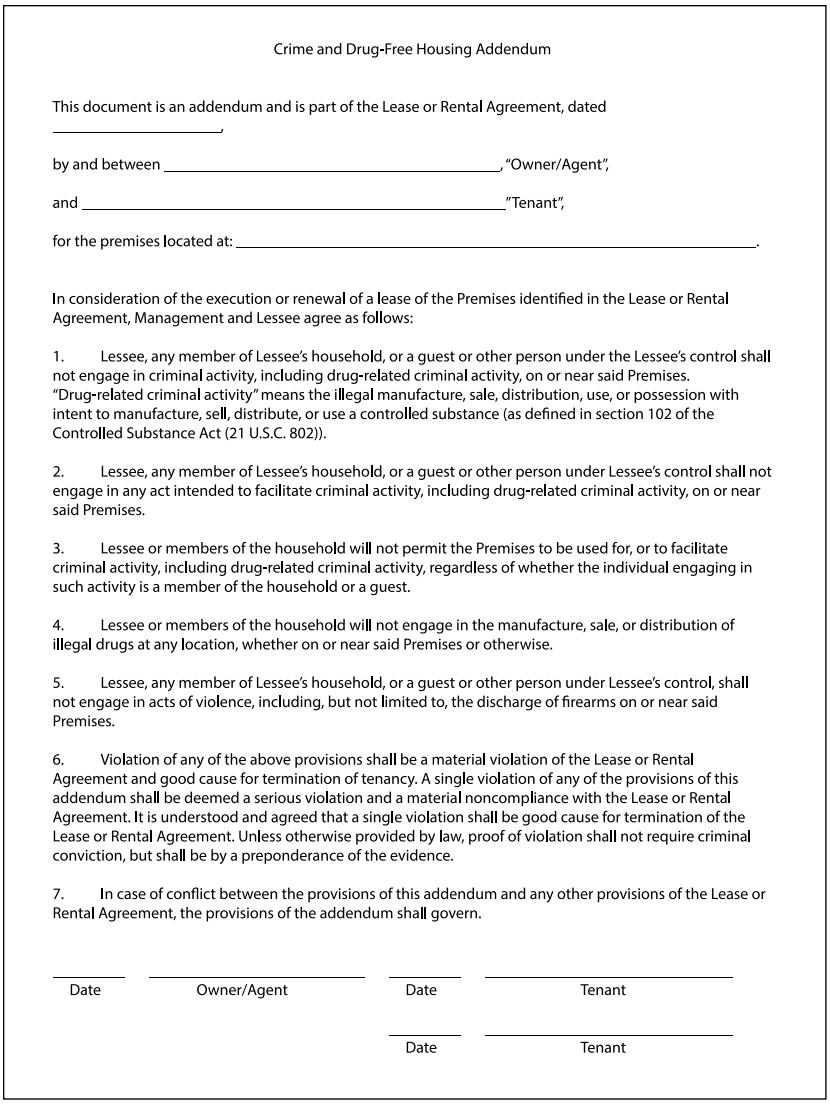
Although you can't control the types and volumes of crime in your rental property neighborhood, you can be proactive. The best way to do so is to meet with your local police department and neighborhood association to see what programs are available in your area. The following sections highlight two of the most common ones.

The Crime Free Multi-Housing Program

One of the best crime-prevention programs for rental property owners is available from many local law enforcement departments. The Crime Free Multi-Housing Program (`www.crime-free-association.org/multi-housing.htm`) connects residential rental property owners, local law enforcement, and tenants in an effort to fight crime and raise the local standard of living. This program has certified trainers with the not-for-profit International Crime Free Association teach owners and managers keep illegal activity out of their residential rental properties. This comprehensive training covers applicant screening techniques, preparation of rental contracts, signs of drug activity, crisis resolution, and ongoing management responsibilities. Tenants receive instruction on how to identify criminal and suspicious behaviors, and they're strongly encouraged to prevent crime.

When the training is complete, and you demonstrate that you're screening prospective tenants, evicting problem ones, and using a crime- and drug-free-housing addendum, your property can be certified as a Crime Free Multi-Housing Community. After full certification, you can display signs at the entrances to your residential rental property to alert any prospective tenants that your property doesn't tolerate any criminal or drug-related activity.

Figure 19-1 shows what a sample crime- and drug-free-housing addendum looks like. Go to `www.wiley.com/go/propertymanagementkitfd4e` to access a copy that you can print.



Crime and Drug-Free Housing Addendum

This document is an addendum and is part of the Lease or Rental Agreement, dated _____,

by and between _____, "Owner/Agent",

and _____"Tenant",

for the premises located at: _____.

In consideration of the execution or renewal of a lease of the Premises identified in the Lease or Rental Agreement, Management and Lessee agree as follows:

1. Lessee, any member of Lessee's household, or a guest or other person under the Lessee's control shall not engage in criminal activity, including drug-related criminal activity, on or near said Premises. "Drug-related criminal activity" means the illegal manufacture, sale, distribution, use, or possession with intent to manufacture, sell, distribute, or use a controlled substance (as defined in section 102 of the Controlled Substance Act (21 U.S.C. 802)).

2. Lessee, any member of Lessee's household, or a guest or other person under Lessee's control shall not engage in any act intended to facilitate criminal activity, including drug-related criminal activity, on or near said Premises.

3. Lessee or members of the household will not permit the Premises to be used for, or to facilitate criminal activity, including drug-related criminal activity, regardless of whether the individual engaging in such activity is a member of the household or a guest.

4. Lessee or members of the household will not engage in the manufacture, sale, or distribution of illegal drugs at any location, whether on or near said Premises or otherwise.

5. Lessee, any member of Lessee's household, or a guest or other person under Lessee's control, shall not engage in acts of violence, including, but not limited to, the discharge of firearms on or near said Premises.

6. Violation of any of the above provisions shall be a material violation of the Lease or Rental Agreement and good cause for termination of tenancy. A single violation of any of the provisions of this addendum shall be deemed a serious violation and a material noncompliance with the Lease or Rental Agreement. It is understood and agreed that a single violation shall be good cause for termination of the Lease or Rental Agreement. Unless otherwise provided by law, proof of violation shall not require criminal conviction, but shall be by a preponderance of the evidence.

7. In case of conflict between the provisions of this addendum and any other provisions of the Lease or Rental Agreement, the provisions of the addendum shall govern.

Date	Owner/Agent	Date	Tenant
		Date	Tenant

FIGURE 19-1: Crime- and drug-free housing addendum.

Courtesy of Robert S. Griswold

Many law enforcement departments actively support this program in conjunction with a traditional neighborhood watch program. The combination trains tenants to recognize crimes or suspicious activity and to report them to police. Law enforcement works one on one with owners, managers, and tenants by sharing information about criminal activities that have occurred in the community. The program's goal is to help these rental communities become certified and improve the quality of life for all.

The National Crime Prevention Council

A useful resource for information is the National Crime Prevention Council, which offers a free checklist with advice and suggestions to help you evaluate the current safety features of your residential rental units and common areas. This information, which can also be useful for your home or office, is available at `www.archive.ncpc.org/topics/home-and-neighborhood-safety.html`.

Paying attention to tenant questions and complaints about safety-related issues

When a tenant directly inquires about safety or crime at your property, inform them of any known recent confirmed serious or violent criminal incidents. Rental owners aren't routinely advised or aware of crime in the area or even in their own residential rental property, of course. Obviously, you can't disclose what you don't know. So you should refer prospective or current tenants to local law enforcement agencies for more information.

REMEMBER

Although describing your building's crime-deterrent devices can be an effective marketing technique, you must take care to avoid inadvertently increasing your liability. This problem arises when you represent or even imply that your property is safer and more unlikely to have crime than other properties. No residential rental property is immune from crime. Crime and criminal acts can happen virtually everywhere despite the best efforts of law enforcement.

So why not just exclude the words safe, secure, security, and any variations thereof from your vocabulary? Don't use them in your advertising, websites, phone conversations, emails or texts, or vacancy showings, because if your tenant becomes a crime victim, they'll certainly claim that your ads, representations, or comments gave them the expectation that nothing bad would happen to them or their possessions. Be honest with people, but be sure they understand that neither you nor law enforcement officials can guarantee safety for them, their family members and guests, or their possessions or vehicles. When discussing any building features, speak generically without embellishment. If you have an alarm device in your residential rental unit, for example, don't refer to it as a security protection system or imply that the tenant's safety is assured because of this or any other building feature.

TIP

Test any alarm, and demonstrate the proper use of all crime-deterrent hardware and devices with your tenants. Then have them sign an acknowledgment that these protections will not prevent all crime or criminal activity. Remind your tenants in writing to test these devices, which can fail or malfunction, and to contact you immediately for repairs or replacement.

Some residential rental property owners put disclaimers in their rental contracts that say the owner isn't responsible if a tenant suffers damage or an injury, regardless of the cause. Because they have this disclaimer in place, owners may get careless and slow in responding to tenant complaints about lighting or malfunctioning window locks. But what these owners don't realize is that such disclaimers are almost certainly unenforceable. Many states have laws that invalidate these broad clauses, because the disclaimers attempt to shift the owner's responsibility to maintain the premises properly to avoid responsibility for a tenant's injuries or damage. Informing tenants of the following within your rental contract language, however, is a good idea:

- You don't promise security or crime prevention of any kind.
- The tenants acknowledge that you don't and can't guarantee the safety or security of them, their family, their guests, or their possessions.
- You don't guarantee the effectiveness or operability of crime-deterrent systems or devices.
- The tenant should have renter's insurance (see Chapter 20).

See your legal counsel for assistance in preparing the proper language and documentation.

Responding to crimes when they occur

If a serious or violent crime occurs at your property, notify your tenants as soon as possible in writing, along with any warnings or safety tips provided by law enforcement. Some owners are concerned that telling tenants about crime or criminal activity at the property or in the immediate area will lead to increased vacancies. You may occasionally lose someone this way, but warning your tenants so that they can be more conscious of safety and crime-deterrent issues is important and helps prevent other criminal activity.

No specific rules exist about what criminal activity you should report to your tenants, but you should notify them of any criminal activity concerning physical attack or bodily injury, as well alerting them to any attempted or actual rental unit break-ins, burglaries, or robberies. A random car break-in or minor isolated vandalism on the property usually doesn't require notification unless the incident occurs repeatedly. You can use a letter or memo to inform tenants about criminal activity; owners of larger rental properties can use the community website, newsletter, or a tenant meeting as a forum for discussion of the issue. If you have the information for your tenants, a quick text or email can also be advisable, but follow up with a formal written notice posted within the common area as well as on each tenant's door.

REMEMBER

The dated, written notification should tell your tenants that a criminal act has occurred. Be sure to include any public information, composite sketches, or safety tips provided by law enforcement. Don't use the victim's name or address unless that person has requested that you do so or you have advance approval. Remind tenants to be careful regarding controlled-access areas and their surroundings and to call law enforcement immediately if they suspect a crime. Also, remind tenants that protecting themselves and their families, their guests, and their possessions is their responsibility. You, your on-site manager, and any other employees must be extremely careful not to make statements acknowledging liability that can be used against you in any future legal action.

WARNING

You have personal information about your tenants, including where they live and work, the cars they drive, and their personal identification and financial information. Consequently, you're responsible for keeping this information confidential. Institute a policy of not providing any information to anyone unless the tenant specifically gives you written authorization to do so. Securely lock all your property and tenant files in unlabeled file drawers to prevent intruders from accessing these documents, which they may use to target such vulnerable tenants as elderly people or single women. You may also want to consider eliminating publicly visible tenant rosters or at least limiting the information to last names on controlled-access directories. Check with your mail carrier about putting tenants' names only on the insides of the mailboxes.

Taking Necessary Crime-Deterrent Precautions

One of the best ways to keep criminal acts from occurring at your residential rental property is to make crime prevention a priority. Although you can't guarantee that your property is safe, you should do what you can to increase the likelihood that your tenants won't encounter problems. In the following sections, I cover some crime-prevention issues worth considering, not only for your property's safety, but also for your tenants' well-being.

Keys and access-control systems

Rental unit locks are useless as access-control entry devices when keys or electronic entry keycards or fobs aren't controlled effectively. Some properties employ a master key system in which a single key works on all locks. Although this method is convenient, I strongly advise against using it, because one lost key can require you to rekey an entire property. Instead, use a duplicate system with different keys for each lock.

Keep all owner or manager keys in a locked metal key cabinet or key safe. Don't label keys with the tenants' addresses or unit numbers; rather, code them so that if they're lost or stolen, they can't be used easily. If a tenant reports a lost or missing key, change or rekey the lock instead of giving them a duplicate key unless they're sure that the key is irretrievably lost. Charge the tenant a reasonable fee to cover your costs of providing a new key.

REMEMBER

If you have contractors or suppliers working on-site, always arrange to have someone provide needed access instead of giving them a key.

TIP

Although you must always change or rekey all entry locks upon tenant turnover, some tenants want to change, rekey, or install additional locks during their tenancy. Doing so is fine as long as they give you a duplicate key so that you can enter the unit to respond to emergencies and make repairs. If you find an added or changed lock, explain your policy, and request a copy of the key. If the tenant doesn't want to give you a copy of the new key, send a polite but firm letter informing them of your policy. Ultimately, you may need to consider eviction if you can't obtain a copy of the key.

More sophisticated entry keycards and other electronic access-control lock systems are now available and are used regularly in the hospitality industry. When combined with full-perimeter fencing, these card systems can be effective for controlling access as long as your tenants cooperate by not letting anyone follow them in. Originally, these systems weren't cost-effective except for large rental properties, but in the past decade or so, significant reductions in cost have made them feasible for many smaller properties.

I've installed smart-card access-control systems with great success. Smart cards, which are the size of credit cards, contain a microchip bearing a unique identification number that's almost impossible to forge. You can install smart-card readers at all access-control points on the property, such as vehicle and pedestrian gates, as well as common-area facilities. Another feature of smart cards is that with the use of an ATM-type station, they can store monetary value and be used for laundry machines, tennis-court lights, or any other amenity that you want to charge for or control.

REMEMBER

Always invalidate lost or stolen keycards. Although it may seem desirable without full analysis of your rental property and your tenants' activities, having pedestrian access to control gates may be unpopular with those tenants and their families who routinely walk to schools, stores, or bus stops in your neighborhood. After all, they don't want to be inconvenienced with unlocking a pedestrian gate every time they leave or enter your rental property.

In addition to keys and/or access-control systems, use standard crime-deterrent devices such as deadbolts (preferably with minimum 1-inch throws) and locking passage sets. All wood entry doors should be solid-core and have wide-angle peepholes or door viewers. Window locks and metal pins for all sliding glass doors to minimize unauthorized entry, or even simple wood doweling for window tracks, are also extremely cost-effective yet valuable crime-deterrent devices. Make sure that your tenant initials the move-in checklist to acknowledge that all these devices are working and that they will contact you immediately if any locks or other such devices need repair. Repair any broken locks or other security devices immediately when you're notified.

TIP

Make sure that any crime-prevention devices you install are easy to operate and difficult to disable. A determined criminal can break into any residential rental community, but you want to make yours difficult target. Also, avoid installing crime-deterrent devices that create an illusion of peace of mind or false sense of confidence; they can actually lower tenants' guard and make them more vulnerable to criminal acts. Don't install phony monitoring cameras in an attempt to deter criminal activity, for example. Courts have routinely held that if such devices or measures are installed, the owner is required to employ the appropriate staff to oversee them. Never forget that you're in the residential rental housing business, not the business of installing and monitoring crime-prevention systems.

Lighting

Effective outdoor lighting has many benefits in dissuading criminal acts. Proper lighting is an extremely cost-effective way to enhance and reasonably protect your property and your tenants. It can serve as a deterrent to vandalism while illuminating your building walkways and the common areas to help prevent injuries to tenants and guests. The right lighting plan can also beautify your building and improve your property's curb appeal. Just remember that lighting is effective only if it's working and located properly, with the right type of fixture and light bulb for its purpose.

TIP

When lighting your rental property, keep these tips in mind:

- **Install appropriate lighting, and keep the fixtures clean.** Too much lighting can be an irritant to tenants whose bedrooms are 20 feet from the high-intensity bulb that illuminates the parking area. Make sure that the lighting is appropriate for the space. Also remember that lights attract insects; clean your fixtures regularly to keep them bug-free.
- **Replace any exterior lighting on clock timers with photocells that automatically detect darkness.** This step keeps your property well lit and eliminates the need to keep adjusting timers because the daylight hours vary

with the seasons. Also, photocells turn on the exterior lights on dark, stormy days. You can easily inspect and test your lights during the day by blocking the photocell sensors with tape to simulate darkness.

- **Establish a regular schedule for inspecting the common-area exterior lighting, and immediately repair or replace broken fixtures and burned-out bulbs.** The best time to inspect and test your lights is night, when you can see that all fixtures are working properly and providing sufficient illumination in the correct locations. Proper lighting in parking lots is very important, because many tenants routinely use parking areas after dark. Be sure to ask your residents to notify you of any inoperative lighting, or inadequately lit areas, and log your lighting inspections, repairs, and bulb replacements in your maintenance records.

Security services

Most small residential rental property owners don't need on-site security firms or random patrols of their property. If you own residential rental properties in areas where security firms are necessary and commonly deployed, however, you can choose standing guard or drive-through security services.

Standing guard services can be quite expensive, particularly if you use them full-time. You'll often have a choice of armed or unarmed guards. Most rental property owners and managers rely on unarmed guards whose primary job is only to observe and report.

A *drive-through and property lock-up service* makes a predetermined number of random checks of the common-area premises each evening (either by vehicle or on foot) and includes securing common-area facilities. This type of service is more cost-effective than standing guard service, and it meets the needs of most residential rental properties.

TIP

If you need a standing guard security service, you may want to hire part-time guard services on a schedule that shifts the guards' days and hours. This way, you're balancing the high cost of standing security guards with a limited but random schedule to keep the criminal element deterred and guessing. Another option is having standing guards on some shifts interspersed with drive-throughs. The key is to become unpredictable. Statistics show that many criminal acts are committed by tenants or others who are very familiar with the rental property and know the habits of any standing guards or drive-through patrols.

REMEMBER

If you decide to hire a security firm, carefully interview and screen the company, ask about the initial and ongoing training of their personnel, and speak to the actual guards who'll be assigned to your property. Always reserve the right to request a different guard, and make sure that the guard understands your expectations and behavior guidelines, including a strict policy against any on-site or off-site socializing with tenants.

Check the firm's references by calling current and past clients, and inquire about the status of all required state and local licenses or permits, including a business license, security protection firm permits, and guard cards for every guard who will work at your property. Require a current certificate of insurance with general liability coverage of at least $5 million, with both you (the owner) and your rental property manager (if you have one) named as additional insureds. Ask to be notified at least 30 days in advance of any lapse in coverage, and require proof of workers' compensation and employer's liability insurance, as well as auto liability insurance and a fidelity bond.

Your agreement must be in writing; clearly indicate that the security firm is an independent contractor; and feature a short termination notice requirement, because service from security firms can deteriorate very quickly.

Avoid using armed guards unless absolutely necessary for your area. If a security firm indicates that armed guards are required at your location, immediately contact local law enforcement for confirmation of that opinion — and think seriously about whether you even want to own this type of property.

TIP

Law enforcement officers in some areas are allowed to offer their off-duty services to patrol your property, and some are even allowed to take their law enforcement vehicles home at night. This off-duty presence can be a powerful deterrent to the criminally inclined, but you need to be extremely careful in establishing any such arrangement. Even if you offer a rent discount, you should use your standard rental contract with an addendum clearly indicating that the officer is an independent contractor and outlining the general services provided and the exact financial terms. Make sure that your insurance covers the use of off-duty law enforcement, and consult your legal counsel to draft the documents. See Chapter 17 for more info on working with independent contractors.

Crime-prevention and property-protection measures should be appropriate for the standard in your community. Excessive measures can have a negative effect on prospects and tenants. You want them to be active and alert to their surroundings and to take prudent self-protection measures, but at some point, instead of feeling more comfortable, they may begin to wonder why so much attention to these issues is necessary. Landlords and property managers aren't (and aren't expected

to be) experts in crime prevention. If you have issues, or if law enforcement brings concerns to your attention, it's best to ask law enforcement or other appropriate professionals to assist you; then follow their advice.

Prioritizing Tenant Safety

Though you can't guarantee or be responsible for ensuring your tenants' safety, you need to make sure that the rental unit and premises are reasonably safe at the time your tenant moves in and throughout the tenancy whenever you find out about problems. The following sections highlight products and tactics you can use to keep your rental units reasonably safe for residents.

With tempered glass

Tempered glass is a type of safety glass manufactured by a special process so that it crumbles into small, granular pieces instead of splintering into dangerous, jagged shards. It's four to five times stronger than nontempered glass. Nontempered glass is used in many rental properties, especially older ones, and you may not even know it. As long as your property's nontempered glass is in good condition, you're not required to replace it, because it's grandfathered in under the building code that was in effect when the property was constructed. But you should be aware of this safety issue.

Whenever you replace shower doors, sliding glass doors, glass entry doors, glass closet doors, or any window in the kitchen or bathroom, I strongly encourage you to make sure that your glass supplier and/or installer provides tempered glass. This type of glass is often required by code. Even if it isn't required, tempered glass doesn't cost much more than nontempered glass, and it significantly improves safety. You may want to make tempered glass a standard part of the scope of your improvements when you renovate or upgrade your rental units.

TIP

Tempered glass is often labeled with a small decal in the corner. If you're unsure and want to be certain that any particular glass is tempered, consult a professional glass installer or general contractor who's knowledgeable about glass.

WARNING

If you have furnished residential rental units, don't purchase or rent any furniture containing nontempered glass. Most major national furniture rental companies don't even offer products of that type, but some low-end suppliers still import products with nontempered glass, which can be very dangerous when used in a residential rental property.

With safe cords (or no cords) for window coverings

WARNING

The Consumer Product Safety Commission (CPSC) has identified window coverings with cords as being one of the top five hidden hazards in homes. An estimated 1 billion (yes, billion) miniblinds, vertical blinds, or shades are in use in the United States, and children ranging from 7 months to 10 years old have suffered strangulation deaths or injuries when the window-covering cord became wrapped around their necks.

Despite these statistics, many of us are unaware of this home-safety hazard. The danger is that an infant, toddler, or child can get entangled in corded window-covering products that have loops, inner cords, or even long draw cords that can get wrapped around the child's neck and cause strangulation. Research has shown that the greatest danger is with corded window coverings with exposed or accessible cords that are 7¼ inches long or longer.

These products come from the manufacturer with labels and hang tags that warn about the potential hazard, but these labels and tags are often removed or overlooked, or they become faded with time. The CPSC has had a safety campaign since 1985 to alert parents to this hazard, but the campaign remains relatively unknown, especially to parents of children 3 years old and younger, who are at greatest risk.

The window-covering industry has implemented voluntary retrofit programs and made significant improvements in the design and manufacture of its products, but corded window products are still abundant.

Tenants may request that corded window coverings be removed from the residential rental property, but you're not required to make this accommodation. You may want to reach a reasonable agreement about the cost of this change with your tenant, however, and you should certainly allow tenants to install their own cordless window coverings at their expense upon request.

You can also find other ways to secure the cords so that they're less accessible to young children. Such measures are often included in the packaging with new window coverings and should be installed if they're available. If you have older window coverings already installed, you can purchase cord cleats and spring tension devices that help secure the cords and reduce the risk.

TIP

Efforts to educate the public are making progress; a 2021 study by the Window Covering Safety Council indicates that 86 percent of adult consumers are aware of the strangulation hazard that certain window-covering products may pose to infants and young children. For more information on window cord safety, including free retrofit kits for many corded window-covering products, go to the Window Covering Safety Council website at `www.windowcoverings.org`.

With anti-tip brackets for free-standing ranges

Though not a well-known hazard, a free-standing range (an appliance with an oven and a top-mounted cooktop, sometimes erroneously called a stove) can tip over if the oven door is opened and used as a place to sit or step up. This type of range is a hazard primarily to small children who are curious to see what's cooking on the stove; the unsecured range can tip over and crush or burn the child.

Since 1991, the manufacturers of gas and electric ranges have agreed to supply anti-tip bracket hardware and installation instructions with new ranges. Despite the availability of these brackets, they're not widely used. In 2011, the CPSC expressed concern that homeowners and/or installers were disregarding these brackets due to the special installation procedures required. Additional voluntary measures have been developed, including adding more markings on the ranges and further warnings in the user guides and installation instructions.

With appropriate enclosures and signage for swimming pools, spas, and hot tubs

One of the most desirable amenities for a rental home or multiunit apartment community is a swimming pool, spa, or hot tub. But swimming pools and spas can create many safety issues for property owners and property managers. Be sure to check your local building code's requirements regarding enclosure fencing and self-closing gates. These devices can minimize the risk of accessibility by children and others who shouldn't be unattended near or in a swimming pool, spa, or hot tub.

Local health departments and similar agencies also have strict guidelines about safety equipment that must be present, as well as water maintenance and testing/reporting procedures that you need to follow with written documentation. You also need to post the required signage and provide rules and/or lease clauses that remind your tenants about the unique dangers associated with swimming pools, spas, and hot tubs. These dangers include the need for constant adult supervision and safe practices, such as no glass and no running or diving. The most secure fence, however, won't protect a child (or anyone else who can't swim) if that person is left unattended inside a pool or spa enclosure.

Besides fencing and adult supervision, many jurisdictions require safety measures including pool/spa safety nets or covers, pool/spa water alarms, gate alarms, and door alarms for all doors from the residential rental units or common-area facilities that have direct access to the swimming pool.

VIRGINIA GRAEME BAKER POOL AND SPA SAFETY ACT

The 7-year-old granddaughter of former Secretary of State James Baker III, Virginia Graeme Baker, tragically drowned in a swimming pool in 2002 when she was trapped underwater by the suction of a spa drain despite the efforts of two adults to rescue her.

The federal act named after her requires all swimming pool and spa drain covers available for purchase in the United States to meet specific performance standards that prevent this type of tragedy. Public swimming pools, wading pools, spas, and hot tubs must meet these requirements as well.

A multifamily apartment building would be considered to be a public facility, whereas a single-family rental home likely wouldn't, as private pools, spas, and hot tubs built before the effective date (December 19, 2008) aren't required to comply with this federal law. Nonetheless, I strongly urge all landlords and property managers to have a professional pool/spa maintenance company verify that all their swimming pools, wading pools, spas, and hot tubs fully comply with the law. This company can also provide advice on any state or local requirements for pools, including regular safety checks of all systems and drains.

Addressing Environmental Issues

Although crime is usually the first safety concern that comes to rental property owners' minds, important tenant safety topics also arise. I cover those topics in the following sections.

Fire safety

Fire safety is a critical issue for rental owners. According to the National Fire Protection Association, more than 1 million fires occur every year in the United States, killing several thousand Americans and injuring more than 10,000. Fires can spread quickly and engulf an entire room, rental unit, or home in a matter of minutes. Fire also produces poisonous gases and smoke that are disorienting and deadly.

TIP

Work with your local fire department to develop an evacuation plan for your property, including written notification to authorities of any rental units occupied by tenants with children or tenants with physical or mental challenges who may require assistance in an emergency.

Fire inspections are conducted regularly in most areas; when your property is inspected, you receive written notification of any deficiencies. You must address these items immediately, and you must contact the appropriate officials in writing to acknowledge that you've corrected the items and to request a new inspection. Be sure to obtain written confirmation that all items have been satisfactorily corrected.

In some areas, rental owners are required by law to provide fire extinguishers and to inspect and service or recharge them upon tenant turnover. A multipurpose dry-chemical fire extinguisher can be a valuable, effective tool for extinguishing a small fire quickly. If inspections aren't required by law, evaluate your potential liability in the event that a fire extinguisher is defective, used improperly, or unsuitably maintained by a tenant. If they get hurt because the fire extinguisher you provided wasn't working properly, you can be liable for damages. Fortunately, local fire departments are often willing to offer your tenants instruction in the proper use of extinguishers. Your insurance carrier may also conduct inspections and provide lists of safety issues or suggestions.

REMEMBER

Fires are always serious, but the most dangerous ones are those that start while tenants are asleep. That's one of the reasons why all states require rental owners to install one or more smoke alarms in all rental units. I strongly recommend installing smoke alarms in all residential rental units' hallways and exit routes, as well as near (preferably inside) all sleeping areas, in compliance with applicable local building or fire codes and the alarm manufacturer's specifications. If you don't know your local requirements, contact your local fire department or building inspection agency for the exact specifications. More states are requiring property owners to replace existing fire alarms that fail with new ones that have sealed 10-year batteries; an expiration date printed on the fire alarm tells you the date on which the batteries will need to be replaced.

TIP

Always inspect and test the smoke alarm according to the manufacturer's instructions upon tenant turnover. If a fire harms a tenant because the smoke alarm wasn't working properly when they moved in, the tenant can sue you. Be sure to keep written records of your inspection and testing of the smoke alarm, and have your tenant initial the rental contract or smoke alarm agreement (check out Chapter 12 for more on this document) indicating that the smoke alarm was tested in their presence and that they can perform their own tests.

Also be sure to immediately address all tenant requests for smoke alarm inspections and repairs. Note such a request in your maintenance log, along with the date when the smoke alarm was repaired or replaced. If the tenant is present, have them sign to acknowledge that the smoke alarm works properly now. Smoke alarm complaints are always a top priority and require immediate attention, so keep new smoke alarms on hand for this reason.

TIP

If you have controlled access for pedestrians or vehicles, make sure that emergency personnel can gain immediate access to your rental property. One of the most universally accepted secure emergency key box access systems is the Knox Rapid Entry System, developed for property owners and fire departments. The Knox box is a small, wall-mounted safe with a standard master key for your geographic area that gives firefighters and paramedics access to a set of property-specific keys that you leave inside the Knox Box. This device allows for immediate entry to your secured perimeters, gates, and buildings without forced entry damage or delay.

WARNING

Many rental units have electric baseboard heaters, which can be an efficient and effective way to heat individual rooms rather than the entire unit. But your tenants need to be careful to keep all people, animals, furniture, bedding, and window coverings at least 6 inches away at all times. If the baseboard heaters haven't been used for some time, it's important to check for loose items that could restrict airflow or cause a fire if they're near the heating element. Also make sure that the unit is attached securely to the wall and that the heating element cover is in place and will prevent damage or injury because the burn injuries can be severe.

Carbon monoxide

Carbon monoxide, a colorless, odorless, poisonous gas produced when fuel burns incompletely, can build up quickly in a rental unit. If the leak occurs when tenants are asleep, they can easily lose consciousness, suffer a serious injury, or die before noticing anything's wrong.

All of the following items can emit carbon monoxide:

- Fossil fuel-burning fireplaces
- Gas appliances
- Gas or kerosene space heaters
- Gas water heaters
- Natural-gas and oil furnaces
- Wood-burning stoves

When these items are working properly, carbon monoxide is vented safely to the chimney or another venting system. If they aren't vented properly, dangerous carbon monoxide can build up within a rental unit.

TIP

Carbon monoxide alarms are readily available, including combination units that include a fire alarm. These devices are hard-wired (some with a battery backup) or battery-operated and emit a loud sound when an unsafe level of carbon monoxide is detected. Currently, 45 states require carbon monoxide alarms in all newly constructed and most multifamily residential buildings, especially those that have garages or fossil-fuel-burning appliances and heaters. Even if your multifamily rental property is located in Hawaii, Indiana, Kansas, Missouri, or Texas, or isn't legally required due to some exemption, be prudent: Install carbon monoxide alarms!

Go to `www.wiley.com/go/propertymanagementkitfd4e` to access the list of states that require carbon monoxide alarms, but note that the trend is for more states to require them.

Naturally, carbon monoxide poisoning is a particular concern for rental owners with properties in cold-weather areas of the country, where tenants rely on some of these items to heat their rental units. Carbon monoxide alarms may not be legally required in certain areas, but I strongly advise installing one if your unit has a fireplace or uses carbon monoxide–producing appliances. When they're in a rental unit upon request, have your on-site manager and maintenance personnel look out for any tenant misuse of a portable gas or kerosene heater, because these devices are major causes of carbon monoxide poisoning and death. Carbon monoxide alarms are inexpensive and can be installed by plugging them into electrical outlets in reasonable proximity to the carbon monoxide–producing source or as required by your state or local jurisdiction.

TIP

You should check all heating systems for basic operation before tenant move-in, but during the tenancy, your tenant needs to be proactive to safeguard their own health and safety. If your tenant alerts you to a concern about the system, you may want to have a pro from your oil or natural-gas/propane supplier inspect all heating systems. If your supplier doesn't offer this service, you can hire a professional heating appliance repair company. If you have fireplaces, you need to hire a chimney cleaning company to periodically inspect your chimney, chimney connections, and insulation for cracks, blockages, or leaks. Have the recommended work done as soon as possible, and respond quickly to any tenant complaints about possible carbon monoxide poisoning.

Electromagnetic fields

Electromagnetic fields (EMFs) are controversial environmental hazards with varying scientific opinions about their potential danger to humans. Power lines, wiring, and appliances all create some level of EMF. Although the forces that these sources create are minimal compared with normal electrical activity in the human body, scientists can't agree whether EMF exposure increases a person's chance of developing certain types of cancer, particularly childhood leukemia.

This potential problem is well beyond your control, but you should be aware of this issue in case you receive a tenant complaint. Because you can't insist that the electric utility remove its power lines and transmitters, the only viable solution for a tenant who has legitimate concerns about EMF is to move. Evaluate the legitimacy of your tenant's concerns to determine whether it's in your best interest to release them from their lease.

Mother Nature's wrath

Every region in the United States experiences its own set of challenges from Mother Nature, so make sure that you and your tenants are prepared for whatever natural disaster may be possible at your property. All states and many local jurisdictions have emergency preparedness offices that can provide information to help you and your tenants take the appropriate steps before an emergency happens. You can find these offices' contact info in the front of your telephone directory.

The Federal Emergency Management Agency has many great resources available online to identify and assess your risk for hazards that could potentially affect you. Its website (`www.fema.gov`) even has a Hazard Information and Awareness section that allows you to see what natural disasters or hazards have occurred historically in your area.

WARNING

In many parts of the country, snow and ice accumulation can create dangerous conditions. Many states and municipalities have laws requiring owners to remove snow and ice from walkways or driveways; others don't. In most states, you aren't responsible if a tenant slips and falls on recent or overnight natural accumulations of snow and ice, or if they venture off primary travel paths. But be sure to remove as much snow and ice as possible from your most-traveled walkways and main driveways as soon as possible to minimize the chance of an injury.

Mold

Mold is the common term for a variety of fungi. Mold is everywhere, and its effect on health has become an increasing concern for rental property owners and managers.

According to the U.S. Environmental Protection Agency (EPA), mold has the potential to cause health problems for people who have asthma or allergies to certain types of mold. For these people, contact with specific molds can cause allergic responses such as as sneezing, runny nose, red eyes, and skin rash. But mold can also irritate the eyes, skin, nose, throat, and lungs of nonallergic folk. Symptoms other than these reactions aren't commonly reported as a result of mold inhalation.

You should inspect your rental unit carefully for any suspected mold before the tenant moves in, and minimize the possibility of mold by quickly identifying and remedying the source of any moisture. Note, however, that mold can develop under normal living conditions, particularly in high-moisture rooms like kitchens and baths, especially if the tenants fail to open windows or use circulation or exhaust fans when cooking or bathing. Chapter 12 discusses the paperwork you need your tenants to sign concerning mold, including steps that are important for the tenant to take to minimize the chance for mold to form. During the tenancy, it's particularly important for the tenant to thoroughly and regularly clean tile and grout lines (as well as caulked seams in bathtub or shower enclosures), using bleach or a similar cleaning product.

REMEMBER

If, despite their best efforts, your tenants suspect elevated moisture, or smell or see mildew or mold, they should notify you immediately. You must take claims of visible mold seriously, possibly by arranging for a maintenance person or contractor to investigate. Follow the EPA guidelines regarding mold removal (available at `www.epa.gov/mold`), and consult experts if the problem is severe and persistent. In such cases, use qualified professionals, and carefully document all communication to minimize the risk of being sued by your tenants.

TIP

If you want more information about mold and how to minimize or get rid of it, I suggest that you check out the following resources:

- **"Guidelines on Assessment and Remediation of Fungi in Indoor Environments":** This document, published by New York City's Department of Health and Mental Hygiene, is widely considered to be the first comprehensive document to establish best practices for mold assessment and remediation. You can find it at `www1.nyc.gov/assets/doh/downloads/pdf/epi/epi-mold-guidelines.pdf`.
- **"A Brief Guide to Mold, Moisture, and Your Home":** This publication, produced by the EPA, is an excellent resource for both rental property owners and tenants. It's available at no charge at `www.epa.gov/sites/default/files/2016-10/documents/moldguide12.pdf`.

Bedbugs

Get a complaint from a tenant that they have bedbugs, and you'll have not only a practical pest-control and maintenance problem to resolve, but also a potential public relations nightmare on your hands.

THE EPA AND MOLD: WHAT YOU CAN DO

EPA guidelines emphasize that the key to mold prevention is moisture control and that drying water-damaged areas within 24 to 48 hours is important. They advise that although eliminating all mold and mold spores from an indoor environment is impractical, you can clean up mold with detergent and eliminate the source of the moisture. If you don't remove the moisture source, your mold problem will reoccur.

Although many websites promote air testing, the EPA indicates that testing for mold is generally unnecessary if visible mold growth is present. You should proceed with mold cleanup and remediation per the appropriate EPA guidelines or the advice of a qualified professional. The EPA does advise that surface sampling, using analytical methods recommended by the American Industrial Hygiene Association (`www.aiha.org`), the American Conference of Governmental Industrial Hygienists (`www.acgih.org`), and other professional organizations may be useful after mold removal to determine whether an area has been adequately cleaned.

The EPA provides a cleanup and mold prevention guide for various materials and classifies mold contamination in different categories based on the surface area of the affected space. The EPA recommends different responses for areas of 10 feet or less (approximately 3 feet by 3 feet), areas of 30 to 100 square feet, and areas greater than 100 contiguous square feet. Consult a professional for mold contamination greater than 100 contiguous square feet.

For more info about mold, check out the EPA's website at `www.epa.gov/mold`. I especially recommend checking the Ten Things You Should Know about Mold section for valuable help.

Bedbugs are parasitic creatures the size of an apple seed (about 5 to 7mm) that feed on blood every three to seven days, causing skin irritation and itchy bites. (Just reading this information may make you start scratching for no apparent reason!) These insects aren't picky; they're equally willing to feed on humans and pets. They're also resilient. Researchers at Virginia Tech have discovered that bedbugs live between 99 to 300 days in a laboratory and are capable of surviving up to 70 days without feeding. They reproduce rapidly, so time is of the essence when you're seeking to address and control a potential infestation. As their numbers increase, the demand and competition for food can motivate bedbugs to travel to adjacent units.

Bedbugs exist throughout the world, prefer warm climates and darkness, and generally make their feeding runs at night. Because these bugs live solely on blood, having them in your home isn't a sign of dirtiness; you're as likely to find them in immaculate homes and hotel rooms as in filthy ones.

Although laws in many states require the property owner and manager to address a bedbug infestation, bedbugs are rarely found in an unfurnished vacant rental unit. Rather, bedbugs typically enter a rental unit undetected via a tenant's clothing, luggage, containers, used furniture (especially mattresses, box springs, and couches), pets, and other items — anywhere their flattened bodies can hide. That category covers a lot, because bedbugs can fit into tiny spaces about the width of a credit card. If there's a crack that will hold a credit card, you've found a potential bedbug dwelling unit!

Over time, the insects may scatter from the bed throughout the bedroom, moving into any crevice or protected location they find. They may also spread to nearby rooms within the same rental unit, although whether they can travel between apartments on their own is debatable. Some experts insist that they can't; others think that they can follow electrical or plumbing lines, or crawl under the walls separating apartments.

Although they're not known carriers of disease, bedbugs are a great nuisance after they've fed, because they lay eggs (lots of them), typically in the creases or seams of fabrics. You can pick up bedbug egg casings on your clothes or shoes simply by visiting a unit that's infested.

The bedbug population appears to be increasing exponentially, and currently, there's no effective treatment for eradicating the pests. Well, you could welcome the bedbug's natural predators — cockroaches, ants, spiders, mites, and centipedes — into your units, but I doubt that your tenants would appreciate that.

The following sections explain how to identify a bedbug infestation within your property and how to remove these annoying creatures.

You may want to consider supplying a bedbug addendum with your lease or rental agreement. This document states that the unit was inspected for bedbugs before the tenant took up residence and acknowledges the tenant's responsibility to prevent, report, and treat infestations. You can access a sample bedbug addendum from the California Apartment Association by going to `www.wiley.com/go/propertymanagementkitfd4e`.

Identifying a bedbug infestation

Like most pest-control challenges faced by landlords, property managers, and their pest-management professionals, the keys to success are tenant education and cooperation. Although bedbugs are routinely misidentified, get professional assistance as early as possible to minimize the chance that an infestation will spread to other rental units. Because your tenant occupies your rental property, any efforts to control bedbugs begins with a notice to the landlord or property manager, who should contact a pest-management professional to inspect the rental unit (and adjacent units, if necessary) and recommend the best method of treatment, based on the extent and severity of the infestation. As with all vermin, the sooner you can address a complaint of bedbugs in a rental unit at your property, the better.

REMEMBER

To spot a bedbug infestation, look for the following signs:

- Small dark spots about the size of pencil points. These spots are bedbug droppings, and they can bleed through fabric like a marker bleeds through paper.
- Blood on sheets or pillowcases (a result of their bites).
- A peculiar musty or offensive odor (which bedbugs excrete).
- Miniscule (about 1mm) white eggs and eggshells.
- Dead-skin sheddings.
- Live bedbugs. (See `www.epa.gov/bedbugs/bed-bugs-appearance-and-life-cycle` for a good image of what bedbugs look like throughout their stages of development.)
- Rusty or reddish stains on bedding or mattresses.

Removing bedbugs from your property

If you encounter bedbugs at your property and want to get rid of them, be prepared for the process to take some time and require patience — as well as sizable expense. The good news is that you don't have to rely solely on pesticides. Instead, you can turn to an integrated pest-management program that combines chemical and nonchemical treatments. Currently, bedbug treatments range from pesticides to applying heat over an extended period (around 115 degrees Fahrenheit for more than 90 minutes) to freezing them at temperatures below 0 degrees Fahrenheit. You should also encase mattresses and box springs to minimize bedbugs' habitat.

REMEMBER

Keep the following in mind when dealing with a bedbug infestation:

- Thoroughly clean everything within the infested area.
- Remove the bedbugs' habitat. (It's critical to clean up any piles of clothing and/or clutter, because bedbugs like to hide there.)
- Hire a pest-management professional to perform an inspection, including rental units that share walls or ceilings, recommend the best treatment method.
- Schedule follow-up inspections of the area to ensure that the bedbugs haven't returned.

If you're unfortunate enough to have bedbugs at your property, you're probably extra-concerned about how to prevent future infestations. Educating tenants about bedbugs is truly one of the best things you can do. For additional information, I encourage you to visit `www.epa.gov/bedbugs`.

5 Money, Money, Money!

IN THIS PART . . .

Get up to speed on two big issues: insurance and taxes.

Use software to keep records and manage your finances.

Discover a few ways to increase your cash flow.

IN THIS CHAPTER

- Insuring yourself against loss and liability
- Understanding the tax angles
- Using new tax perks tucked away in the 2017 Tax Cuts and Jobs Act

Chapter 20

Two Necessities of Property Management: Insurance and Taxes

As a residential rental property owner, two of the major financial responsibilities you must deal with are insurance and taxes. Knowing the rules before you get in the game is the best way to play, and in this chapter, I let you know just what to expect.

I need to give a shout-out to *Real Estate Investing For Dummies*, 4th Edition, which I coauthored with Eric Tyson. Much of the material in this chapter is derived from that book. Unfortunately, I don't have the space in this book to cover all the ins and outs of taxes, risk management, and insurance, so check out my other title for in-depth coverage of those topics and so much more.

Developing a Risk-Management Plan

Many people get into the world of residential rental property ownership and management without knowing how much risk they're exposed to just by owning real estate. You may read stories in the newspaper about lawsuits against deep-pocket

defendants without much personal concern, but it's a reality shock when you're suddenly considered to be the one with those deep pockets.

REMEMBER

Residential rental property owners and managers need a plan to minimize risks because they're frequent targets of those who suffer a personal injury or whose property is damaged. But those aren't the only lawsuits targeting residential rental property owners. Many studies have shown that real estate rental property owners are sued more than any other single type of business entity.

A recent but troubling trend is that many pro-tenant legal advisers are encouraging residents to file lawsuits claiming that their rental units are not habitable. Some of the more unscrupulous tenant-rights attorneys and organizations even discourage their clients from contacting the rental property owner first for needed repairs and maintenance, instead preferring to file complaints with government agencies and then using such reports to bolster their claims when seeking damages. The primary targets seem to be self-managed properties or management companies that don't have a strong track record of excellent maintenance and detailed documentation.

You can take steps to reduce and control your risk. Consider taking the following preventive actions to minimize the potential of being named in a lawsuit:

- **Regularly inspect the property as part of a thorough maintenance program.** One of the easiest ways to minimize the potential of being named in a lawsuit is to inspect your residential rental property routinely and correct any noted deficiencies, such as health or safety problems. Be sure to comply with all requirements for advance notice of entry and access-limitation laws before going into rental units or going on the tenants' exclusive-control exterior areas. Make and retain written documentation confirming your inspections, and record that all items were promptly and professionally addressed. If possible, see whether your tenant will sign off on the completion of any work done so that you'll have proof that at least at that time, the tenant was satisfied with the condition of their residential rental unit.
- **Listen to and address tenant complaints.** Be open and responsive to feedback from your tenants and others who express concerns, and consistently require tenants' maintenance and repair requests to be in writing, even if you write down the request for them and have them sign the paper. Always obtain written permission to enter the rental unit, and carefully document any issues about which tenants make complaints. (You want to avoid situations where there's any or delay or difficulty in accessing the unit.) A track record of quick response to complaints, with the proper documentation to prove your timeliness, is the best defense if you find yourself defending a claim or lawsuit alleging uninhabitable conditions, an injury, or property damage due to your negligence.

- **Transfer the risk to others.** Transferring risk from the owner and property manager to the vendor or supplier is sound policy for managing and minimizing risk. You can transfer risk contractually by using only licensed and qualified contractors and suppliers who provide their own insurance coverage. Require them to provide written evidence that they have proper insurance coverage in place, naming you individually and the legal entity that holds title to your investment property as an additional insured, before they perform work or provide materials. If you use a management company to handle property management for you, make sure that the company requires insurance declaration forms from all vendors and suppliers, documenting $1 million minimum coverage limits, before the vendors do any work or even make deliveries to your property. Have a file for hard copies of the insurance declarations, with a tickler system to make sure that this important insurance coverage doesn't get canceled or lapse due to nonrenewal or nonpayment.
- **Remove certain risks, or never allow them in the first place.** Many owners and managers of residential rental properties have removed diving boards and pool slides. Other owners have restricted access to the roofs of their buildings by installing emergency-door hardware (which may sound an alarm but still allows roof access in case of an emergency).

REMEMBER

Although you can minimize your risks by taking some of these steps, you can't eliminate all risks, and that's why you need proper insurance coverage. Insurance is a vital element in a risk-management program.

TIP

For more than 30 years, I've served as an expert witness in more than 3,000 litigation matters throughout the country involving all types of real estate. Lawsuits filed against property owners and management companies seem to be recession-proof. In addition to recommending proper maintenance and repairs and excellent customer service for tenants, I have one specific recommendation that will inoculate you from many less-legitimate lawsuits: Eliminate or cap the "prevailing party" attorney-fee clause in your lease or rental agreement. Property owners like this clause, as they envision collecting their legal fees and costs when evicting tenants for nonpayment, but tenant-rights attorneys see it as an opportunity for them to get even a minor judgment against a property owner or their management company and then collect huge legal fees and costs. Take my advice: Simply eliminate the attorney-fee clause or at least cap it to not exceed $1 or $2,000, or whatever is the total cost for an eviction action in your area. You'll have removed a tempting incentive for aggressive legal sharks who are looking for an opportunity to turn a small-claims case into a major lawsuit with the potential of six-figure legal fees.

Cover Me, I'm Going In: Making Sure You Have the Insurance You Need

Some insurance companies want to sell you coverage against any possible danger or loss in the world. And a sharp insurance agent is a master at describing all sorts of horrible problems that can befall your property. If you want to make sure you're covered at a reasonable cost, you need to sift through the sales pitch and decide which type of coverage is right for you.

REMEMBER

Your goal is to pay only for coverage for the events and losses that are most likely to occur at your property. Buying hurricane insurance in Minnesota may not make a ton of sense, but purchasing the right insurance coverage is worth a lot.

You also need to be concerned about lawsuits and having the proper insurance coverage to defend yourself and protect your assets. Why? Apartment-complex owners and property managers tend to be sued quite frequently. The most common lawsuit is a simple security-deposit-refund dispute, but if you're a rental property owner or property manager for several years, you'll likely become experienced in defending yourself from other types of litigation, including injury claims. Although that prospect sounds intimidating, you'll likely be okay if you have sound ownership and management policies combined with insurance customized for your specific needs. The following sections help you determine what those needs are.

REMEMBER

You'll always retain and need insurance, but don't assume that your insurance covers all potential losses. Your best defense against losses is to manage your rentals properly and apply the four methods of risk management: assertively avoid, transfer, reduce (through loss prevention) or retain control of the inherent risks of owning and managing rental property. Retention includes paying for those losses for which you do not have specific insurance coverage, or the deductible (the specified amount you pay before your insurance company will pay a claim) for covered losses. Seek the feedback and advice of your insurance agent or company, many of which will routinely inspect your property to help you identify and mitigate risks. Some companies even offer discounts if you implement some of their recommendations, and having no or few claims over the years can lead to lower premiums. You need to be particularly diligent to avoid or minimize water-loss claims (any insurance claim for a water event related to any plumbing issue or water intrusion through the building envelope), which can lead to significant remediation costs; many insurance carriers will cancel your policy if you have more than a single water-loss claim.

Telling the difference among types of insurance coverage

The first step in getting the right insurance is understanding the types of insurance available. The proper insurance coverage can protect you from losses caused by many perils, including fire, storms, burglary, and vandalism. Besides building coverage, a *comprehensive general liability* policy covers injuries or losses suffered by others as a result of defective conditions on the property. General liability insurance also covers the legal costs of defending personal-injury lawsuits. Because legal defense costs are commonly much greater than the ultimate award of damages, if any, liability insurance is a valuable feature. Loss-of-rents or income insurance can also come in handy for keeping up with the mortgage payments and other costs of ownership in the event of a loss that interrupts your income stream, such as a fire or natural disaster.

REMEMBER

The coverage you can get as a rental property owner varies from company to company, so do the following things when selecting one:

- **Interview and choose a qualified insurance broker or agent who understands your unique needs.** Have an in-depth discussion with several insurance agents about types and amounts of coverage, the costs, deductible amounts, and exclusions. Make a chart that allows you to compare several companies side by side.
- **Look at each company's ratings and its reputation for quickly and fairly handling and paying claims.** Although several rating firms exist, the most widely known is A.M. Best Company, which uses an A through F rating scale, just like in grade school. The top companies have an A or A– rating but preferably an A+ or A++ rating (as high as the scale goes). You can visit A.M. Best online at `www.ambest.com` and search for its Financial Strength Ratings on insurance companies you're considering. Remember to add a rating column to your comparison chart.

TECHNICAL STUFF

During the financial crisis that started in 2008, as well as during other times, you may have heard about some insurers getting into trouble despite having high ratings. That happens, but don't worry about an insurer's going belly up and not paying claims. Insurers are regulated and overseen at the state and federal levels, and troubled insurers are merged into stronger ones.

Just as it's a good idea to get more than one medical opinion, two or three financial ratings can give you a better sense of the safety of an insurance company. Stick with companies that are in the top two — or, at worst, three — levels on the different rating scales. You can obtain current rating information about insurance companies by asking your agent for a list of the current ratings.

REMEMBER

Insurance professionals are either independent brokers or exclusive agents who write policies for only one company. Talk with an insurance broker and a couple of company agents to ensure that you're receiving the insurance coverage you need for the best value. Keep in mind that the lowest premium often isn't the best policy for your needs. Ask a lot of questions, and insist on evidence that the company provides coverage with a written *binder*, a document issued by an agent to the insured before the formal issuance of the insurance policy. Always make sure that communications regarding insurance coverage and policies are in writing, and remember that your best proof of coverage (besides the actual policy) is a formal certificate of insurance that outlines who and what the policy covers.

TIP

Insurance lingo can be confusing. One example is the written insurance binder versus the certificate of insurance. A written insurance binder is a temporary contract of insurance that "binds" the stated coverage for a short period until the full insurance policy is issued. A certificate of insurance is proof of insurance coverage documenting the types of coverage and policy limits for a specific period; it's commonly used by property owners and managers when confirming that a contractor or vendor has coverage. A certificate of insurance can also be proof that an additional insured (such as the property owner or property manager) has been added to the policy of a contractor or vendor and will provide insurance coverage in the event of a claim against the property owner or property manager.

Common coverages

The following list describes three levels of coverage available for primary policies, all of which include liability coverage. Many insurance companies offer competitive insurance packages especially designed to meet the needs of rental property owners, so remember to shop around.

- **Basic:** Most insurance companies offer a basic building-coverage package that insures your residential rental property against loss from fire, lightning, explosion, windstorm or hail, smoke, aircraft or vehicles, riot or civil commotion, vandalism, sprinkler leakage, and even volcanic eruptions.

  This coverage often doesn't include protection against claims alleging property damage or personal injury from mold or protection for certain contents, such as boilers, equipment, and machinery, unless specifically added as an endorsement. (Fair-housing discrimination claims typically aren't covered either, but recently, coverage has become available.)

- **Broad-form:** With *broad-form* coverage, you get the basic package plus protection against losses due to glass breakage, falling objects, weight of snow or ice, water damage associated with sudden and unexpected plumbing failures, and collapse from certain specific causes.

- **Special-form:** The broadest coverage available is *special-form,* which covers your property against all losses except those losses that are specifically excluded from the policy. This coverage offers the highest level of protection and may not be much more expensive than other kinds but is often a good value. Many insurance companies offer competitive insurance packages specially designed to meet the needs of rental owners, so remember to shop around. Insurance agents often market their policies at favorable terms through National Apartment Association affiliates or members of the Institute of Real Estate Management, so be sure to check these sources as well.

TIP

If you own multiple investment or rental properties, consider the following:

- **A single insurance policy that covers all locations:** Rather than have separate policies for each rental property, you can get better coverage with a single policy. If you currently have three properties each with a $1 million policy, for example, you could get a single policy with a $3 million limit at a more competitive cost.
- **An aggregate deductible:** An *aggregate deductible* is the portion of your loss that you essentially self-insure, because the losses at any of your three properties can go toward meeting the aggregate deductible.

An insurance company can pay owners for losses in two ways:

- **Actual cash value:** The coverage pays the cost of replacing property less physical depreciation. The standard policies that most insurance companies offer provide actual-cash-value coverage only.
- **Replacement cost:** This coverage pays the cost of replacing the property without subtracting for physical depreciation. You must specifically have an endorsement and pay extra for replacement-cost coverage. I encourage you to purchase it, however.

Additional insurance options

A variety of other insurance coverages also make sense for most rental property owners:

- **Loss-of-rents (or business-interruption) coverage** provides income, enabling you to make mortgage and other payments if your property is severely damaged by fire or another calamity.
- **Workers' compensation insurance** pays employees and covers their medical expenses if they're injured or become ill as a result of their job. There are workers' compensation laws in all states; be sure to fully comply with

them. This insurance coverage is often available through a government agency, whereas private insurance companies offer coverage in other areas.

Although some states don't require you to carry this coverage unless you have a minimum number of employees, I advise carrying workers' compensation coverage even if you don't have any employees. Any contractor you hire to perform work on your rental property, for example, should have their own workers' compensation insurance policy to cover all their employees. If someone gets hurt and the contractor has limited or even no coverage, however, their injured employee may target you for compensation. Don't take chances; this coverage can often be added to your standard insurance policy at little cost.

TIP

- **Nonowned auto liability coverage** protects you from liability for accidents and injuries caused by your employees while working and using their own vehicles. Require them to provide proof of a valid driver's license, a clean driving record, and current auto and liability coverage with reasonable limits.
- **Fidelity bonds** provide reimbursement if you have a dishonest employee who steals your rents.
- **Endorsement for money and securities** covers losses caused by dishonest acts of nonemployees.
- **Building ordinance insurance** covers the costs of demolition and cleanup, as well as the increased costs to rebuild if your rental property is partially or fully destroyed and needs to meet new or stricter building-code requirements. This coverage is extremely important if your property is built at a higher density (more units or square footage or beyond height limits) than current zoning allows; it compensates you for the lost property value if you can't rebuild the same-size building.

TIP

- **Flood, hurricane, and earthquake insurance** are examples of coverage available for a separate cost. This coverage can be critical in the event of a natural disaster. These policies are often expensive, however, and have extremely high deductibles, making them unattractive for the average small rental property owner. Get quotes nonetheless to see whether this type of insurance is something you think you can afford.

Excess liability (umbrella) coverage

Excess liability (umbrella) coverage can be a cost-effective way to increase your liability protection dramatically; it's designed to supplement your main or basic policies. An umbrella policy provides both additional and broader coverage beyond the limits of the basic commercial general liability insurance and other liability coverage. This coverage is available only after the primary policy limits have been exhausted.

PAYING ATTENTION TO COINSURANCE CLAUSES

Some insurance companies have a *coinsurance clause,* which is the joint assumption of risk between the insurer and the insured and requires rental property owners to carry a minimum amount of coverage. If you carry less than the minimum amount, the company imposes a coinsurance penalty that comes out of your recovery. These penalties reduce the payment on the loss by the same percentage as the insurance shortfall.

If you carry only $1.6 million in coverage when you should have $2 million, you're carrying only 80 percent of the minimum required insured value. If the building suffers a loss, the insurance company will pay only 80 percent of that loss.

Your primary policy may have liability limits of $500,000 or $1 million, but an umbrella policy can provide an additional $1 million in vital coverage at a cost of $2,500 to $5,000 per year. Depending on the value of your property and the value of the assets you're seeking to protect, buying an umbrella liability policy with higher limits may make sense. Umbrella policies are available in increments of $1 million, with even lower rates per dollar of coverage as the limits go higher. The most common umbrella coverage amount for owners of large investment properties is $5 million, for an annual cost of approximately $5,000 to $8,000.

TIP

Purchase your umbrella policy from the same company that handles your underlying primary liability insurance package. The reason: If you have two different insurers rather than one, the companies may have different agendas if legal problems arise

Determining the right deductible

A *deductible* is the amount of money you must pay out of pocket before your insurance coverage kicks in. Deductibles can be expressed as a percentage (such as 10 percent) but usually can be purchased as a fixed dollar amount or cap, which generally ranges from $250 to $500 or sometimes $1,000 for small rental properties. The larger the property, the higher the customary deductible. But the higher the deductible, the lower your insurance premium.

TIP

Evaluate the possibility of having a higher deductible and using your savings to purchase other important coverage. Contact your insurance agent for quotes on the premium reduction based on each level of deductible. To score a lower insurance premium, you must be willing and able to absorb the amount of a much higher deductible. And because you always want to minimize the number of claims, remember that you're unlikely to submit any claim for an amount that's slightly higher than your deductible. If you decide that you can increase your

deductible from $500 to $2,500, you're realistically agreeing that you aren't going to submit any claim for less than $3,000 to $4,000, because making a claim for a small amount beyond the deductible doesn't make sense. Always contact your insurance agent to discuss any potential claims, because not all claims negatively affect your future coverage or premium charges.

Talking with Tenants about Renter's Insurance

Renter's insurance is secured by and paid for by your tenants; it covers losses to the tenant's personal or business property as a result of fire, theft, water damage, or other loss. As a rental property owner, you want to encourage (and possibly even require) your tenants to have this coverage. They pay the premium, and you benefit from renter's insurance because it covers any claims in the event that the tenant or their guest starts a fire or flood. This coverage also can help you avoid a claim in case a tenant's guest was injured inside their rental unit or caused damage to the rental property.

Although the number of tenants with renter's insurance has increased significantly, the most recent Insurance Research Council study showed that 96 percent of homeowners have a homeowner's insurance policy, but only 43 percent of renters have a renter's insurance policy.

REMEMBER

As a rental property owner, you benefit from renter's insurance because it covers any claims in the event that tenants start a fire or flood. Their premiums go up instead of yours. So to protect your property, be sure to place a clause in your rental contract clearly stating that every tenant must have renter's insurance. Depending on the policy limits, renter's policies typically cost $150 to $300 per year, with deductible amounts of $250 or $500. As with car insurance, the insurance company pays only for losses over and above the deductible amount.

One of the benefits of renter's insurance is that when your tenant has a renter's insurance policy to handle their claims, they're less likely to sue you or threaten you with a lawsuit. Also, if the tenant makes claims against their own policy, the tenant's premiums go up rather than yours.

A *renter's insurance addendum* is a document that informs renters about insurance coverage so that they can protect against loss. This document helps prevent misunderstandings about the owner's and tenant's insurance coverage and also allows you the option of requiring the tenant to obtain renter's insurance. To access a sample renter's insurance addendum from the California Apartment Association, go to `www.wiley.com/go/propertymanagementkitfd4e`.

RENTER'S INSURANCE IS NO LAUGHING MATTER

The importance of renter's insurance was reinforced early in my management career when a bad fire occurred at one of the properties I managed. Apparently, a new tenant was getting help from *six-pack movers* — friends who assist with a move in exchange for a six-pack of their favorite beverage. The fire started when one of the tenant's friends negligently placed a box of paper goods right on top of the gas stove's pilot light.

Luckily, no one was seriously injured, but 12 of the 16 rental units in the building were destroyed. None of the tenants had renter's insurance, and even the innocent neighbors lost everything they owned. I was covered legally because all the tenants had initialed the rental contract clause indicating that they should have renter's insurance. But facing tenants who'd just lost everything because they didn't get around to buying renter's insurance was still difficult.

REMEMBER

Immediately document all facts when an incident occurs on your property, particularly if it involves injury. Use an incident report (like the one available at `www.wiley.com/go/propertymanagementkitfd4e`) to record all the facts. Be sure to get in touch with your insurance company or your insurance agent immediately. Follow up with a written letter to ensure that your contact was notified and has the information on file. Failure to do so in a timely manner could result in the denial of a claim.

Understanding the Tax Angles

The tax laws regarding investment real estate are unique and far more complex than those regarding home ownership. A homeowner can't deduct the costs of operating and performing repairs and maintenance on the home, but as the owner of a rental property, you can deduct such costs. Also, the benefits of depreciation apply only to rental real estate; they aren't available for property held as a personal residence.

TIP

Tax laws change frequently, so check with your tax adviser before taking any action. Use a tax attorney, a certified public accountant (CPA), an enrolled agent (EA), or a tax specialist to prepare your tax returns if you have investment real estate. In the sections that follow, I discuss some important rental real estate tax concepts that you should understand if you want to make the most of your property investments.

Sheltering income with depreciation

Depreciation is an accounting concept that allows you to claim a deduction for a certain portion of the acquisition value of a rental property because the building wears out over time. Depreciation is an expense, but it doesn't actually take cash out of your bank account. Instead, you treat the depreciation amount as an expense or deduction when tallying your income on your tax return, which decreases your taxable income and allows you to shelter positive cash flow from taxation. Depreciation lowers your income taxes in the current year by essentially providing an interest-free government loan until the property is sold.

WARNING

The use of depreciation by real estate investors can be used to defer, but not eliminate, income taxes. The annual deduction for depreciation is a reduction in the *basis* (calculated as your original cost in the property plus capital improvements) of the rental property, which is *recaptured* (added to your taxable profit) in full and taxed upon sale. Currently, all deductions taken for cost recovery are recaptured and taxed at 25 percent when you sell the property.

TIP

Depreciation is allowed only for the acquisition value of the buildings and other improvements, because the underlying land isn't depreciable. The theory is that the buildings and other improvements ultimately wear out over time, but the land will always be there. Because the amount of your depreciation deduction depends on the highest portion of the overall property value being attributable to the buildings, it's advantageous to allocate the highest fair-market value of your rental property value to the improvements to increase your potential deduction for depreciation.

To determine the appropriate basis for calculating depreciation, many real estate investors have traditionally used the property tax assessor's allocation between the value of the buildings and land. But the Internal Revenue Service doesn't allow the assessor's allocation. It does accept an appraisal, which can be quite expensive unless you have a recent one available. But a more cost-effective method that the IRS accepts is the Comparative Market Analysis, which most brokers offer for a nominal charge or even for free.

TECHNICAL STUFF

Before 1993, depreciation could be accelerated in the early years of rental property ownership. This option led to poor decision-making in real estate deals that were motivated by the significant tax shelter offered by real estate, with only a secondary concern about return on investment or appreciation.

But under current tax laws, recently acquired rental properties can use only straight-line depreciation. *Straight-line depreciation* reduces the value of the rental property by set equal amounts each year over its established depreciable life. The period during which depreciation is taken is called the *recovery period.* For

properties placed in service or purchased on or after May 13, 1993, the IRS requires straight-line depreciation with the following recovery periods:

- **Residential rental property:** The recovery period is 27.5 years (or a cost recovery factor of 3.636 percent each year). A property qualifies as residential if the tenants stay a minimum of 30 days or more and no substantial services are provided, such as medical or health care.
- **Commercial properties:** The recovery period is 39 years (or an annual cost recovery of 2.564 percent). Mixed-use properties are classified as commercial unless the income from the residential portion is 80 percent or more of the gross rental income.

The cost recovery deductions for both the year of acquisition and the year of sale must use the midmonth convention requirement, which means that regardless of the actual day of sale, the transaction is presumed to have been completed on the 15th of the month. Thus, the depreciation deduction is prorated based on the number of full months of ownership plus a half month for the month of purchase or sale.

Minimizing income taxes

To get a firm grasp on paying Uncle Sam, you first need to understand all about income taxes. Taxpayers generally have two types of income:

- **Ordinary income:** This type includes wages, bonuses and commissions, rents, dividends, and interest. It's taxed at various rates, depending on your net taxable income. The higher the reportable net income, the higher the *marginal tax rate* (the amount of additional tax paid by the taxpayer on each dollar of additional reportable income), with the top rate currently at 37 percent. The taxable income you receive from your rental property is subject to taxation as ordinary income.
- **Capital gains:** Capital gains are generated when investments (such as real estate and stock) are sold for a profit. The income you realize upon the sale of your investment property is subject to taxation as a capital gain. Capital gains are classified as short-term and long-term:
  - *Short-term:* For property held for 12 months or less, capital gains are taxed at the same rate as ordinary income.
  - *Long-term:* For property held for longer than 12 months, gains are taxed at lower rates than ordinary income with a current rate of 0, 15, or 20 percent, depending on your overall tax bracket.

But you can't pay taxes until you figure out exactly what part of your income will be taxed. To do that, you need to perform a cash-flow analysis. The cash flow from a property — positive or negative — is determined by deducting all operating expenses, debt service interest, capital improvement expenses, damages, theft, and depreciation from rental income.

The income you receive from your rental property is subject to taxation as ordinary income. The positive cash flow is determined by deducting all operating expenses, including the following:

- Advertising costs
- Auto and travel expenses
- Cleaning and janitorial services
- Damages
- Debt service interest
- Depreciation from rental income
- Equipment rental
- Gardening or landscape maintenance
- Homeowners' association dues
- Insurance premiums
- Interest paid on mortgage debt
- Leasing commissions
- Maintenance and repair costs
- Management fees
- Payroll
- Professional fees
- Property taxes
- Supplies
- Theft
- Utilities and waste removal

WARNING

You don't have to pay taxes on security deposits until they become income. When you receive them, security deposits are a liability that you must pay back to tenants at a later time. After a tenant vacates and you withhold a portion of the security deposit, it may become classified as income. Essentially, the deposit isn't taxable as long as you have an expense for the same amount as the deduction. If you deduct $300 from a tenant's security deposit to paint, and you hire a painter for $300, you don't owe any taxes on that $300 you retained. But if you deduct $300 and then do the work yourself for $100, you owe taxes on the $200 difference, which is classified as income.

Calculating the cash flow of a property follows the format shown in Table 20-1. Here, I provide a quick summary and then factor in the taxman:

1. **Start with the Gross Potential Income (GPI) for the property.**

   This figure is the hypothetical maximum rent collections if the property were 100 percent occupied at market rents and all rents were collected.

2. **Subtract the *loss to lease* (the amount the contract rent is less than the market rent) and the rent that isn't collected due to vacancy and collection loss (failure of tenants to pay) to arrive at net rent revenue (NRR).**

3. **Add the other income (laundry, parking, money collected from former tenants, income from the rental of a cellphone tower on the roof, and so on) to the NRR to establish effective gross income (EGI).**

4. **Subtract the operating expenses from the EGI to calculate net operating income (NOI).**

5. **Subtract the capital improvements and interest paid on the debt service from NOI to arrive at before-tax cash flow.**

6. **Subtract the straight-line depreciation (which is merely a noncash accounting deduction that reduces your tax liability without requiring an actual cash expenditure) from the before-tax cash flow.**

   The result is *taxable income.*

7. **Multiply this year's taxable income or reportable loss by your ordinary marginal income rate to determine your tax liability or savings.**

8. **Deduct the tax liability (or savings, if the taxable income is negative and the loss can be used in the current tax year) and the annual debt service principal payments from the net taxable income, and add the noncash deduction for the straight-line cost recovery.**

   You have the after-tax cash flow.

TABLE 20-1

Calculating After-Tax Cash Flow

Gross potential income	$100,000
Minus loss to lease	(2,000)
Minus vacancy and collection losses	(2,500)
Net rent revenue	**95,500**
Plus other income	2,500
Plus common-area maintenance reimbursement (if any)	2,000
Effective gross income	**100,000**
Minus operating expenses	(40,000)
Net operating income	**60,000**
Minus capital improvements	(5,000)
Minus annual debt service interest	(35,000)
Before-tax cash flow without principal payments	**20,000**
Minus straight-line cost recovery	(12,000)
Net taxable income	**8,000**
Minus tax liability (or savings)*	(5,148)
Minus annual debt service principal payments	(4,000)
Plus the cost recovery	12,000
After-tax cash flow	**10,852**

*Calculation of Tax Liability

Net Operating Income	$60,000
Minus annual debt service interest	($35,000)
Minus straight-line cost recovery	($12,000)
Net taxable income	13,000
Times investor's tax rate	37%
Tax liability	$5,148

Taking new tax breaks for pass-through entities

The 2017 Tax Cut and Jobs Act, which took effect in tax year 2018, includes lower across-the-board federal income tax rates that benefit all wage earners and

investors, including real estate investors. If you spend at least 250 hours per year on certain activities related to your real estate investments, you may be able to take an additional tax break for certain small-business entities.

In redesigning the tax code, Congress realized that the many small businesses that operate as so-called pass-through entities would be subjected to higher federal income tax rates compared with the new 21 percent corporate income tax rate (reduced from 35 percent). Pass-through entities are small businesses such as sole proprietorships, limited liability companies, partnerships, and S-corporations; they're so named because the profits of the business pass through to the owners and their personal income tax returns.

To address the concern that an individual business owner who operated their business as a pass-through entity could end up paying a higher tax rate than the 21 percent rate levied on C-corporations, Congress provided a 20 percent deduction for those businesses. If your sole proprietorship netted you $60,000 as a single taxpayer, for example, that income would push you into the 22 percent federal income tax bracket. But you'd get to deduct 20 percent of that $60,000 of income (or $12,000), so you'd owe federal income tax on only the remaining $48,000 ($60,000 – $12,000).

REMEMBER

Another way to look at this scenario is that the business would pay taxes on only 80 percent of its profits and would be in the 22 percent federal income tax bracket. This deduction effectively reduces the 22 percent tax bracket to 17.6 percent.

This 20 percent pass-through deduction gets phased out for owners of service businesses (lawyers, doctors, real estate agents, consultants, and so on) at single taxpayer incomes above $157,500 (up to $207,500) and for married couples filing jointly incomes over $315,000 (up to $415,000). For other types of businesses above these income thresholds, this deduction may be limited, so consult your tax adviser.

The IRS has clarified that certain rental real estate investor entities are eligible for a 20 percent qualified business income pass-through deduction in a given tax year if the following conditions are met:

- Separate books and records are maintained to reflect income and expenses for each rental real estate enterprise.
- For tax years 2022 and earlier, 250 or more hours of rental services are performed (as described in this revenue procedure) per year with respect to the rental enterprise. For tax years 2023 and beyond, in any three of the five consecutive taxable years that end with the taxable year (or in each year for an enterprise held for less than five years), 250 or more hours of rental services are performed (as described in this revenue procedure) per year with respect to the rental real estate enterprise.

- The taxpayer maintains contemporaneous records, including time reports, logs, or similar documents, regarding the following:
  - Hours of all services performed
  - Description of all services performed
  - Dates on which such services were performed
  - Who performed the services

  Such records are to be made available for inspection at the request of the IRS. The contemporaneous records requirement does not apply to taxable years prior to 2019.

Per the IRS, rental services include

- Advertising to rent or lease the real estate
- Negotiating and executing leases
- Verifying information contained in prospective tenant applications
- Collecting rent
- Performing daily operation, maintenance, and repair of the property
- Managing the real estate
- Purchasing materials
- Supervising employees and independent contractors

REMEMBER

Rental services may be performed by owners or by employees, agents, and/or independent contractors of the owners. The term *rental services* doesn't include financial or investment management activities, such as arranging financing; procuring property; studying and reviewing financial statements or reports on operations; planning, managing, or constructing long-term capital improvements; or traveling to and from the real estate property.

Also keep in mind that real estate used by the taxpayer (including an owner or beneficiary of a relevant pass-through entity) as a residence for any part of the year is ineligible for this tax break. Real estate that's rented or leased under a triple net lease is also ineligible.

TIP

The taxation of real estate is complicated and constantly changing, so we have just covered the tip of the proverbial iceberg here. QBI in particular is of great interest to real estate investors, but it has many specifics that can be tricky. That is why I consulted with noted tax experts Vern Hoven, CPA, and Sharon Kreider, CPA, as they not only study and understand the details of these ever-changing tax laws,

but they also teach tax professionals and CPAs. If you are really interested in getting to know the full scope and potential tax benefits to real estate investors (there are many), check out www.westerncpe.com.)

Understanding passive and active activity

In 1986, Congress enacted passive income and loss provisions to eliminate the use of real estate tax shelters that were structured primarily to provide considerable tax benefits for investors.

REMEMBER

Rental owners often start with their real estate activities serving as second incomes. The majority of their income often comes from professions and sources unrelated to real estate. The taxation rules that apply to these part-time real estate investors are different from the ones that apply to real estate professionals. Unless you qualify as a real estate professional (discussed later in this chapter), the IRS classifies all real estate activities as passive and sets limits on your ability to claim real estate loss deductions.

A special IRS relief provision exclusively for rental real estate activities may permit a moderate-income real estate investor to offset other income with up to $25,000 in excess losses from rental real estate. The potential deduction is limited to a maximum of $25,000 per tax year for all real estate investment properties combined. Real estate investors can take a rental property loss deduction of up to $25,000 against other income in the current tax year as long as their adjusted gross income doesn't exceed $100,000. If the adjusted gross income exceeds $100,000, the real estate investor will be denied 50 cents of the loss allowance for every dollar over $100,000, so the entire $25,000 loss allowance disappears at an adjusted gross income of $150,000. To take this deduction, you must meet the following four requirements:

- **The properties must qualify.** Certain types of properties don't qualify, including net leased properties and vacation homes in a rental pool.
- **You must own a minimum of 10 percent of the property based on value.** Interestingly, the IRS allows a taxpayer to include the interests held by a spouse, even if the couple doesn't file a joint return.
- **You must actively participate in property management.** This rule doesn't mean that you can't use a management firm. You can meet the active-participation requirement simply by communicating with the management company about the approval of new tenants, determining the rental terms, approving repairs or capital improvements, or making other similar owner decisions about day-to-day issues.
- **You must file your tax return as an individual.** Corporations, certain trusts, and other forms of ownership aren't allowed to take this special deduction.

Any losses disallowed in one year are called *suspended losses* and can be saved and applied to reduce rental or other passive income in future years. If the suspended losses can't be used in this manner, the real estate investor will be able to use them when they sell the rental property to effectively reduce the taxable gain. Thus, the losses ultimately benefit the investor, but the time-value-of-money concept (which shows that money becomes worth less over time due to inflation) indicates that the ability to use the losses now is worth more than at some time in the future.

Qualifying as a real estate professional

The IRS's passive-loss rule states that all real estate rental activities must be treated as passive income, with only two possible exceptions:

- A maximum $25,000 deduction for some taxpayers, as discussed in "Understanding passive and active activity" earlier in this chapter
- The relatively small number of people who can meet the IRS's requirements to be classified as real estate professionals

For a taxpayer meeting the eligibility requirements relating to his real estate activities, the rental real estate activities in which he participates aren't subject to the $25,000 limitation. Real estate investors who can be classified as real estate professionals are permitted to deduct all of their rental real estate losses from their ordinary income, such as current employment income (wages, commissions), interest, short-term capital gains, and nonqualified dividends.

The IRS has defined a *real estate professional* as an individual who materially participates in rental real estate activities and meets *both* of the following requirements:

- More than 50 percent of her personal services or employment were performed in a real property business or rental real estate activities, including acquisition, operation, leasing, management, development or redevelopment, construction or reconstruction, and brokerage.
- These activities represented at least 750 hours per tax year. (Work hours as an employee don't qualify unless the taxpayer is at least a 5 percent owner of the employer.)

These individuals are considered active investors and are allowed to claim all their real estate loss deductions in the year incurred, to offset positive taxable income or offset gains at the time of sale. But the IRS considers each interest of the taxpayer in rental real estate to be a separate activity, unless you choose to treat all rental real estate interests as one activity. This choice is an important step.

Consult with a tax advisor to determine whether aggregating your rental real estate activities is advantageous and, if so, to make sure you properly make the required election when filing your tax return.

But qualifying as an active investor is complicated. The IRS now allows the taxpayer to qualify as a real estate professional by combining hours spent on rental and nonrental real estate activities. For example, even a part-time real estate broker or property manager may be able to demonstrate over 1,000 hours in a typical year in qualified real estate activities such as listing and selling, leasing and managing rentals, and renovation or construction. So meeting the 750 hours isn't a problem, but the 50 percent test requires that the 1,000 real estate activity hours be more than 50 percent of all work hours in a year. This threshold can be a problem if you have other extensive nonqualified work activities, and a new calculation must be made each year. If you do qualify, carefully document your activities and the hours spent in each through appointment books, calendars, or narrative summaries.

TIP

A potentially useful real estate investment strategy for some married couples is to have a stay-at-home spouse become an active real estate agent or property manager and accumulate at least 50 percent of his or her employment or business time with a minimum of 750 hours per year selling and managing the family rentals. With the real estate professional qualification met, their rental activities are now active, and they can deduct all of their rental real estate losses. However, lawyers can't get a break, because the IRS has specifically ruled that real estate attorneys can't qualify.

WARNING

Material participation, which requires the real estate investor to be involved "in a regular, continuous, and substantial manner," shouldn't be confused with active participation (which we define in the "Understanding passive and active activity" section earlier in the chapter).

Grasping (and appealing) property taxes

Local municipal and government agencies generally receive a major portion of their operating funds by taxing real estate within their jurisdictions. Typically, property taxes are an ad valorem (based on the property's value) tax, but sometimes, other factors or mathematical formulas are used to reach the final value on which the tax rate is applied. Contact your local county tax assessor to find out exactly how your county determines your property taxes.

In certain areas of the country, improvement districts have been established with special assessments in addition to the property tax obligations. These taxes are usually flat fees or amounts based on square footage, as opposed to the property's value.

Naturally, problems can arise in determining the value to place on a property. Real estate is valued, or *assessed,* for real estate taxation purposes by governmental tax assessors or appraisers. These public employees are responsible for determining a market value for each property in a jurisdiction. The *market value* of a property is the price the property would most likely sell for in a competitive market.

The building and land are appraised separately, and most states have laws that require the property to be reassessed or revalued periodically. Then a tax or mill rate is applied to the assessed value to determine the actual tax billed to the property owner. The higher the assessed value of your property, the higher your property tax bill. Property taxes are typically due in two semiannual installments, and unpaid taxes or special assessments become liens on the property. A *lien* is a claim or attachment against property as security for payment of an obligation.

TIP

You may feel helpless against the property tax bureaucracy in your area, but remember that tax assessors have been known to make clerical errors or fail to take all pertinent factors into account when placing a value on your property. If you feel that your property assessment is too high, contact your local tax assessor. The assessor may be willing to make an adjustment if you can back up your opinion with careful research and a good presentation. Or you may need to make a formal property tax protest. Tax protests are often first heard within the tax assessor's office or a local board of appeal. If a dispute still exists, appeals may be taken to court in many states.

Contact your assessor to inquire about a reassessment if real estate values decline in your area. A lower assessment leads to a direct reduction of your property tax bill and a corresponding increase in your cash flow. Some jurisdictions even temporarily lower the valuation based on broad declines in real estate, but most of these programs call for an annual reassessment, and your value can increase quickly to the previous or even higher assessed valuation.

WARNING

Many municipalities have implemented business license or rental unit taxes for rental property owners. Sometimes, these resources are used to finance code enforcement or mandatory inspections of some or all rental properties. But these special taxes may just generate revenue for the general fund. Contact your local government to ensure that you're meeting all its specific requirements. The licensing or rental taxes are high enough, but the fines and penalties can be extreme.

IN THIS CHAPTER

- Setting up a filing system to keep track of your paperwork
- Organizing the financial records for all your properties
- Taking advantage of computer software to help you with your accounting

Chapter 21

Financial Management and Record-Keeping

If you ask several residential rental property owners what their least favorite part of the job is, you'll probably hear "Paperwork" more than any other response. Most owners don't mind the hands-on aspects of managing their properties, such as cleaning or painting the rental unit; many of them even enjoy those tasks. And meeting rental prospects and showing the property are fun compared with recording rents, sending out late notices, and writing checks to pay the bills. But the financial management aspects of accounting for all the funds you receive and expend are critical elements of running your rental housing venture. In this chapter, I show you how to get a handle on good financial record-keeping.

Organizing Your Files

If you have an aversion to keeping track of documents, managing your own residential rental properties may not be for you. If you own rental property, you need to prepare many important written records and keep them ready for easy, prompt retrieval. Every residential rental property owner must be organized, which includes having a basic filing system with separate records for each property.

Scanning and storing documents electronically is easier today than ever, so you may opt to keep many of these files and copies of all important documents on your computer. Be sure to back up your files regularly on a flash drive or to a reliable cloud server so you don't lose your critical data. If you're not computer-savvy, or if you own only a few rental units, a manual system works just fine. If you own a few more units, your filing system can be a simple accordion filing box with dividers, available at any office-supply store. If you outgrow the filing box, moving up to a filing cabinet (preferably one that's fireproof and lockable) makes sense.

REMEMBER

Organize your records at the property level and the unit level. You'll have some documentation overlap, but the benefit of having complete, easily retrievable records at your fingertips greatly outweighs the effort involved in making some photocopies. Start at the property level, and construct the following:

- **Ownership file:** From the moment you take your first steps toward purchasing an investment property, begin storing hard copies of your paperwork in a property ownership file. Keep all the important documents of this transaction, including purchase offers and contracts, the closing statement, appraisals, loan documents, insurance policies, due-diligence inspection and pest-control reports, environmental reports, and correspondence. You may be tempted to go paperless by scanning and storing everything electronically, but these documents are critical, and you must always keep hard copies because electronic files can be lost. Also keep a photocopy of your deed in the property file, and place the original in a fireproof safe or bank safety-deposit box.
- **Income and expense files:** Each of your rental properties should have its own file section with separate folders for income reports such as rent rolls, as well as a separate folder for each of the major property expense categories. Keep copies of all receipts in the expense folders so that when tax time rolls around, you can easily locate the information you need. Start a new file for each tax year.
- **Insurance:** Hang on to a copy of the insurance policy for each property. Make sure you ask each tenant to give you a copy of their renter's insurance policy. Furthermore, keep a master insurance file that contains current policies for all types of insurance coverage on all of your properties. This file should also have a calendar so you can track the expiration or renewal dates for each policy and ensure that you request competitive bids well in advance of the policy expiration date. Keeping accurate records of any incident reports or claims against your insurance coverage is also critical.
- **Master maintenance:** I recommend keeping a master property maintenance file for the records and receipts from all maintenance and capital improvements done in rental unit or suite and the common areas. This one-stop source gives you the records you need on all repairs and maintenance

performed during your ownership and can be helpful to your accountant for calculating your basis in the property when you sell or exchange the property.

- **Service contracts and supplier information:** Keep all your contracts in one place so that you know what each vendor should be doing and what the cost of the service is. You also want to have quick access to all the sources of the supplies and materials you use regularly. It's especially helpful to standardize the purchase of capital items — such as appliances, flooring, and window coverings — to be able to operate efficiently and get the best values.

Moving on to the unit level, put these files together:

- **Tenant file:** Create a separate file for each tenant that contains all the important documents, including rental application, lease agreement, tenant ledger showing all charges and payments, legal notices, estoppel certificates, tenant maintenance requests, and correspondence. Although you can scan and store backup copies of these documents, always keep the original of each document, and provide the tenant a photocopy. You'll need the signed originals of all pertinent documents should legal action ever become necessary. Individual tenant files are closed out and a new tenant file established when a rental unit is occupied by a new tenant.

  When your tenants vacate, attach a copy of any paperwork from the termination of their tenancy, and bind the entire tenant file together. Transfer that file to a separate file for all former tenants, filed alphabetically by rental property.

TIP

- **Unit maintenance file:** I recommend keeping a separate maintenance file for each rental unit or suite with the records and receipts for all maintenance and capital improvements. This system gives you a history of the physical condition, as well as the installation date for all appliances or equipment, for each rental unit or suite throughout your ownership. This file remains open even when the tenants change.

Use a system for recording all significant tenant complaints and maintenance requests. This system will provide a valuable paper trail if a dispute ever arises regarding your conduct as an owner in maintaining the premises properly. Failing to have good records may damage your case should a dispute escalate and end up in court.

TIP

When a tenant vacates, attach a copy of their security deposit itemization form (see Chapter 16 for details) and bind the entire tenant file. Transfer it to a separate file for all former tenants, filed alphabetically by property. You should retain these records as required by your state real estate commission or other legal authority, which generally means saving them for three or four years. Keeping documents a year or two longer than the minimum period is always appropriate, of course.

TIP

Although many people use electronic calendars to track their schedules, you can also use what's called a *tickler file.* Any office-supply company sells accordion files for this purpose. You keep one with 12 slots for each month of the year and one with 31 slots for each day of the month. This system allows you to track several things manually. If an insurance contract is due in November, for example, you can place a copy of the contract in the September slot to remind you to start the bidding process. If the lease on your only investment property runs through June, you can write the renewal letter far in advance and place it in the April slot, ready for mailing.

Maintaining Property Records

Maintaining complete, accurate records of all transactions is extremely important in the world of property management. Courts typically take the stance that tenants are merely consumers, so the burden is primarily on the owner to provide any documents outlining the relationship or understanding between the parties. If the owner can't provide the required records, the tenant almost always prevails.

But you also want to keep proper records because you have to report your income and expenses for each rental property on Internal Revenue Service Schedule E to determine whether you made a profit. The IRS requires rental property owners to substantiate all income and expenses by maintaining proper records, including detailed receipts of all transactions. Don't put yourself in a situation in which you can't support the accuracy of your tax returns.

Document your profits in income journals, and keep all bank deposit slips. Rental property expenses, even if you write business checks, must be accompanied by written receipts that document the expenditures. The IRS may not accept a check as proof of a deductible property expense unless you also have a detailed receipt.

TIP

If you own or manage multiple properties, you can assign a one- or two-character code to each property and mark each receipt accordingly. (Indicate the unit number, if appropriate.) When you have info for multiple properties on a single receipt, make photocopies, and store the receipts in the respective properties' folders. This way, you can provide evidence of the expense for each property instead of having to wade through all your folders looking for the info you need.

TIP

You can also get small scanners and even smartphone applications that simplify the receipt-storage process. You can scan the receipt when you buy paint or office supplies, for example, and have it readily available when you do your rental property accounting later.

If you use your vehicle for your rental property activities, be sure to keep a detailed written log of your mileage. Mileage is a deductible business expense, as long as it's directly related to your property and you have accurate documentation. This simple log should indicate the date, destination, purpose, and total miles traveled. You may be surprised by the number of miles you travel each year in your rental activities; the deductible expense can be substantial.

REMEMBER

Keep all records pertaining to your rental property for a minimum of three to five years. (The time period usually depends on the legal requirements of the state regulatory commission or department of real estate where you live and/or own property.) I suggest keeping documents at least a full year past the minimum requirement. For taxation purposes, most certified public accountants advise keeping records regarding the purchase and capital improvements made during the period of your ownership for as long as you own the property, plus another six years in case the IRS wants to review your tax return.

WARNING

You should maintain certain rental property records, such as those concerning injuries to minors, forever. There's no *statute of limitations* (the law restricting the time frame during which a specific legal action can be taken) for injuries to minors. If a young child is hurt on your property, for example, the statute of limitations doesn't begin until that child reaches the age of 18. In these cases, the tenancy records and maintenance records can be subpoenaed and become critical for defending your actions of 20 years ago.

Taking Care of Business: Accounting

The IRS doesn't require you to keep a separate checking account for each rental property you own, but you do need to keep your rental property activities separate from your personal transactions.

If you own or manage just a few rentals, you may think you can track your tenants' rent payments in your head, but don't rely on your memory. Always track each rental payment in writing. If your tenant pays by check, the canceled check can serve as the tenant's receipt, but the best policy is to provide a receipt whenever possible, regardless of the payment method. ***Note:*** Make sure to record all other income you receive from your rental property, including dollars from laundry, vending, parking, or furniture rental, just to name a few items. Go to `www.wiley.com/go/propertymanagementkitfd4e` to access a sample receipt for rent and other payments.

WARNING

Be sure you accurately record the payment of a tenant's security deposit. These funds aren't typically considered to be income; instead, they're a future liability that's owed back to the tenant if they honor the rental contract's terms. The security deposit may become income at a later date, such as if you apply any portion of it to cover delinquent rent, cleaning, repairs, or other charges. Also, you may be in a state that requires landlords to pay interest on security deposits, with the terms set by statutes that can change frequently, so it's important to keep good records.

Although rental property accounting is fairly straightforward, you may not have the time or inclination to do it. If you aren't prepared to do your own accounting and record-keeping, hire an accountant or a property management company to handle it for you. Some property management firms will perform rental property accounting services for a fee. If you want to try your hand at rental property accounting, however, the following sections can help you with the basics.

Creating a budget and managing your cash flow

Every rental property needs a budget. A *budget* is a detailed estimate of a property's future income and expenses for a certain period — usually, one year. A budget allows you to anticipate and track each property's expected income and expenses. Many rental owners neglect to allocate enough money for projected expenses, so when it comes time to make a repair, for example, they don't have the money set aside to cover it. But if you set up a budget, you're better able to anticipate your expenses.

Although the budget for a single-family home or rental condo is fairly simple, a proper budget for a newly acquired multiunit apartment building can require some careful planning, including a thorough review of past expenses and the property's current condition. Trends in such expenses as maintenance repairs, utilities, insurance rates, and property taxes can also be important when estimating the future cash flow of a rental property, so don't overlook them.

WARNING

Many owners rely on cash flow from their rental properties not only to cover their expenses, but also to supplement their personal income. Particularly if you own a small rental property, you need to have a built-in reserve fund set aside before you start to use any rental income funds for personal reasons. Maintain a reserve balance large enough to pay your mortgage, cover full security deposit refunds, and cover all the basic property expenses for *at least* one month without relying on any rental income.

Set aside money for anticipated major capital improvements in a bank account. You may own a property that will need a new roof in the next five years, for example. Rather than see your cash flow wiped out for several months when it comes time to pay for that roof, you can put small amounts of money into a capital reserve account over several years. This process is the way that homeowners' and community associations reserve funds for major capital items.

REMEMBER

Don't forget to allocate and reserve funds to cover semiannual and annual expenses, such as property taxes and potential income tax due on your rental property net income.

Doing your accounting manually

Most residential rental property owners begin their real estate investing with a single rental home or condo. At this level, the accounting is extremely simple; it can be done manually with pencil and paper in a simple spiral notebook or on an accountant's columnar pad. But when you expand to multiple residential rental units or commercial properties, you need to look for better and more efficient systems that are geared to the specific needs of rental property accounting.

TIP

The classic manual accounting system for rental properties is a pegboard set up for a one-write system (in which each transaction is entered once, using stacked carbon documents). A single-entry records information needed for a consecutively numbered rental receipt, the tenant's individual ledger card, a bank deposit ticket, and the daily cash receipt journal that provides a master record of all transactions. This popular rental accounting system, still used by some residential rental property owners and managers, can be a simple and economical solution if you have only a few residential rental properties with fewer than 25 or so units. The system is available from HD Supply (which acquired long-time industry supplier Peachtree Business Products) at `https://hdsupplysolutions.com` (search for *"pegboard systems"*).

A similar one-write system is available for recording and tracking your tenant service requests, which is always important, but even more so with the advent of pro-tenant legal advisers who are seeking to sue landlords, alleging a failure to maintain the rental unit properly. Being able to show that you track all contact and service requests from your tenants follow through to make sure that the repairs or maintenance is performed satisfactorily is essential to defending against frivolous claims of uninhabitability.

Using software for accounting

When you own several properties, consider using a computer with a spreadsheet or general-accounting software program. Spreadsheet programs such as Microsoft Excel can handle a few residential rental properties. Somewhat better are the general business accounting packages, such as the entry-level Quicken and the more advanced QuickBooks or Sage 50cloud Accounting. These programs can handle and streamline all the basic accounting requirements of managing a few residential rental properties.

Recognizing the value of professional accounting software

As good as these programs are, however, they lack the specific residential rental property features and reporting that are invaluable to effective property management. If you have more than 10 scattered site residential rental properties and/or more than 25 residential rental units, I strongly recommend purchasing a professional rental accounting software program. These programs typically offer the following features:

- Complete accounting (general ledger, accounts receivable, accounts payable with check writing, budgeting, and financial reporting)
- Tenant and lease management, including online applications, rental agreements and leases, and virtually all standard rental management forms and addendums
- Tenant communications via email and text for service requests and feedback, maintenance scheduling, and reminder notes
- Additional services such as marketing and advertising, website management, prospect follow-up, budgeting and forecasting, electronic payments, prospective-resident screening, payroll, utility billing, and even package management for all your residents' online purchases!\

Another advantage to using the computerized residential rental property accounting software packages is the ability to have your mortgage and other bills deducted electronically. Or you can work with these software packages to pay your bills online. If your tenants pay their rent electronically as well, you can decrease the time you spend handling rent collection and accounting.

You can also customize the financial reporting offered by software programs to meet your needs. Monthly reports often contain income and expense information compared with the monthly budget, as well as year-to-date numbers. Figure 21-1 shows an example of a very basic monthly financial statement for a single-family rental home.

437 Grand View Street (gvs)

Income Statement

For The Period Ending May 2008

Books = Cash

	Month to Date	%	Year to Date	%
Rental Income				
Rent	2,250.00	100.00	11,250.00	100.00
Net Rental Income	2,250.00	100.00	11,250.00	100.00
Other Income				
Effective Gross Income	2,250.00	100.00	11,250.00	100.00
Operating Expenses				
Payroll				
Administrative Expense				
HOA Dues	125.00	5.56	625.00	5.56
Total Administrative	125.00	5.56	625.00	5.56
Utilities				
Water and Sewer	94.87	4.22	405.77	3.61
Total Utilities	94.87	4.22	405.77	3.61
Repairs and Maintenance				
General Repairs	114.22	5.08	126.83	1.13
Total Repairs and Maintenance	114.22	5.08	126.83	1.13
Management Fees				
Management Fees	180.00	8.00	900.00	8.00
Total Management Fees	180.00	8.00	900.00	8.00
Total Operating Expense	514.09	22.85	2,057.60	18.29
Total Operating Income	1,735.91	77.15	9,192.40	81.71
Net Income Before Interest	1,735.91	77.15	9,192.40	81.71
Mortgage Expense				
Mortgage	1,043.50	46.38	5,217.50	46.38
Total Mortgage Payments	1,043.50	46.38	5,217.50	46.38
Net Profit	692.41	30.77	3,975.90	35.33
Total Net	692.41	30.77	3,975.90	35.33
Net After Depreciation	692.41	30.77	3,975.90	35.33

Courtesy of Robert S. Griswold

FIGURE 21-1: A monthly financial statement for a single-family rental home.

WARNING

In the past decade, the accounting and management software options for real estate investors and property managers have greatly expanded, with an impressive array of online features that take advantage of today's technology. Many property management accounting packages are available for a nominal investment, but don't be penny-wise and pound-foolish. Many less-expensive systems may work in the short run, but if something goes wrong, you may be left stranded without technical support or help. If a software firm is relatively new and has only a few hundred users in place, you're in for a much higher risk of program bugs, system errors, or incorrect results. The software may not even be updated or supported in future years. Your financial investment and all the time-saving and other significant benefits of computerized accounting may be lost if the software package isn't backed by a solid company. While there are many competitors in this space, I only will comment on some of the main long-term players who have been and likely will be around as your real estate empire grows.

WARNING

When you use a management company, you typically receive several important accounting reports within a couple of weeks after the end of each accounting month. If you review these reports regularly, they can give you a good understanding of your rental investments and the opportunity to inquire about or

suggest changes in the operations. But if you manage your own property and do your own accounting, it's important to review and analyze the financial reports in the same manner that you would if you'd entrusted your investment to a property manager. You may think you know everything you need to know about your rental property, and setting aside those monthly reports until tax time may seem harmless, but they're great tools for improving your management results if you use them properly.

You can customize the financial reporting offered by software programs to meet your needs. Monthly reports often contain income and expense information compared with the monthly budget as well as year-to-date numbers.

The language and terminology can be confusing to the novice, but most property management software is offered as either desktop or cloud-based. Of the cloud-based software offerings, the most popular type, and the one I recommend, is Software as a Service (SaaS), which is centrally hosted and available by subscription. The continued challenges with data security and identity theft make SaaS the best solution for rental owners and property managers who aren't interested in spending time becoming IT experts.

Identifying some of the better programs

Each of the many program types available has its own strengths and weaknesses. In recent decades, there has been an impressive improvement in the capabilities of the software offerings for residential rental owners and property managers. Unfortunately, with so many software solutions to choose among and subtle differences among them, finding the right software for you requires some careful research and patience, particularly for the products catering to the entry-level residential rental owner or small property manager.

Following are a few programs that I highly recommend:

- **Quicken Home & Business:** Quicken has discontinued its stand-alone Rental Property Management product and incorporated all the features of that product into its best-selling Quicken Home & Business software. Many rental property owners use this popular software, which follows the same conventions, format, and protocols that they already understand. Even for new users, this software is easy to use, with a large variety of training resources that allow users to quickly understand and streamline their property management accounting. If you have a modest real estate empire (fewer than 10 separate properties), the affordable Quicken Home & Business may be the right software package for you; it's one step up from manual systems or user-customized computer spreadsheet software.

Unlike many of the specialized software programs included in this list, Quicken Home & Business is primarily an accounting package and doesn't offer any of the advanced features that are becoming mandatory, such as online tenant portals for rent payment and service requests, marketing/advertising coordination, and vacancy management. One of its best features for entry-level real estate investors allows you to prepare your federal 1040 Schedule E to deliver to your accountant or import directly into TurboTax if you prepare your own tax return. For information on Quicken Home & Business and related products, go to `www.quicken.com`.

- **Buildium:** This property management software system is easy to use, is cloud-based, and caters to small rental property owners. This software is popular among small-time residential property owners who self-manage and want basic property management and rent collection accounting, but also want to offer their residents online rent payments and service requests through a tenant portal. Although this software can handle any number of separate properties and a large number of rental units, its sweet spot (based on features and pricing) seems to be for owners and property managers of up to 100 rental units. The current pricing model for the basic core product is a sliding-scale monthly base fee based on the number of units, with 1–20 units costing around $50 per month and 100 units costing just over $150 per month. More information is available at `www.buildium.com`.

- **Rent Manager:** Like all the software I mention, Rent Manager by London Computer Systems has everything you need, starting with a strong financial accounting package that includes a general ledger with accounts receivable and accounts payable, budget management payroll import, and financial reporting. The property management tools include rent collection (even an optional check scanner), tenant lease management, contact management, word processing (for correspondence and all types of notices), Voice over Internet Protocol phone integration, and a work-order module. I really like the built-in marketing features that allow you to monitor the results of your advertising, track your prospects, and even quickly post ads on Craigslist or your own website.

  Rent Manager is offered in online, stand-alone, and cloud-based versions, and the current pricing model is a flat fee. I recommend the online version because you get automatic updates, and the manufacturer handles all data backup and technical support. Also, Rent Manager University, an online training platform, can teach you the ins and outs of how to get the full benefits of this software. Visit `www.rentmanager.com` for more details.

- **Yardi Breeze:** For owners of managers of small to medium-size residential and commercial properties (100 to 1,000 units), Yardi Systems also offers a fully integrated, Windows-based product called Yardi Breeze. This that has much of the same basic functionality as Yardi Voyager, but less-sophisticated

reporting capabilities and fewer features and configuration options. Yardi Breeze includes all the basic features: prospect and tenant management, fully integrated accounts receivable and accounts payable, a general ledger, and cash management. It also has ready access to information, elimination of duplicate entries, and spontaneous delivery of reporting. Current pricing is $1 per unit per month, with a $100 minimum.

Breeze Premier a full general-accounting software with many online leasing features, costs $2 per unit per month. See www.yardibreeze.com for more information.

If you have a medium-size to large portfolio of scattered sites or several large buildings, I believe that your choices are easier. These are your major options:

- **AppFolio Core or Plus:** This web-based product claims to be an all-in-one, user-friendly property management software solution, offering everything from marketing and leasing to maintenance and reporting features. Standard features include online tenant and owner portals, online applications and leasing, built-in screening, maintenance requests, mobile inspections, bulk text messaging, and the usual accounting and reporting features.

  The AppFolio Core software is for residential, commercial and association managers with at least 200 units and is available for a per-unit fee (currently, $1.40 per unit). An upgraded product, AppFolio Plus, is available for $3 per unit per month, with a minimum fee of $1,500. For more details, visit www.appfolio.com.

- **MRI Living:** This property management software has had a loyal following for many years. A series of major acquisitions makes MRI Living a comprehensive and flexible technology platform that can be customized. Like RealPage and Yardi Voyager, MRI is for owners and managers of medium-size to large rental properties. For more information on this cloud-based accounting and investment management system, go to www.mrisoftware.com

- **OneSite:** Billed as the property management solution that does it all, RealPage's OneSite software offers a comprehensive suite of integrated options, including accounting, marketing and lead management, resident screening, renter's insurance, utility management, and expense control. Following an industry trend, RealPage acquired Rent Roll, Inc. in 2017 and also has made additional acquisitions to offer an even broader range of data management and online payment services. For more information, see www.realpage.com.

- **Yardi Voyager:** For rental property owners or property management companies with portfolios of 750 or more units, I recommend the Yardi Voyager asset and property management software suite. My property

management company uses this industry-leading software, and I've been impressed by its ability to provide real-time daily and weekly reporting. Yardi Voyager also offers detailed monthly financial reports, which allows my company to provide a greater level of service to clients and outperform the competition. This product has been an industry leader for many years, but be sure to check out the newest features of Yardi Multifamily Suite, RENTmaximizer (to ensure you are getting top dollar) and RENT*Café* if you want the top-of-the-line property management software for all types of residential (conventional, affordable, student, seniors, condos/HOAs), as well as commercial, industrial, and retail modules. Currently, my management company uses Yardi RENTCafé Suite as our all-inclusive marketing, leasing, resident services, and accounting system for everything from websites and social media, to vacancy advertising, applicant screening, and online leasing, plus a resident portal for online payment and service requests. See the full product line at `www.yardi.com`.

TIP

When evaluating software packages, gather as much info as possible. Be sure to talk to actual product users, preferably people in your area who have comparable residential rental properties and similar accounting needs. Determine what features a program offers, how easy it is to operate, its computer hardware requirements, the availability and cost of technical support, and the strength and reputation of the company that backs the product. Obtain a demo or trial version of the software that you can use before you buy, just to make sure it's truly what you want.

TIP

As with any technology product, another factor to keep in mind whether the product incorporates or can be upgraded to include the latest trends. The current trends that you should look for include SaaS subscription-based software, automatic posting of vacancies on various websites, integrated hosting and management of websites, electronic maintenance work-order requests, electronic rent collection and bill payment, and integrated credit checks and applicant screening.

IN THIS CHAPTER

- Getting creative with ways to increase your nonrent revenue
- Taking advantage of lease options to increase your income
- Making the most of government rent subsidy program benefits
- Finding niche markets to enhance your cash flow

Chapter 22
Finding New Ways to Increase Your Cash Flow

The goal of owning and managing rental housing is to maximize your net operating income, which means that the more money you bring in and the lower your expenses while maintaining your property properly, the higher your actual income. Achieving that goal requires willingness to think outside the box. In this chapter, I offer you some new ideas about revenue opportunities outside base rent.

As a residential rental property owner, be aware that the government can assist you and your tenants if their limitations and requirements are met and you're willing to participate in certain federal programs. So I explore government programs that can subsidize your tenants' rent or help you rehabilitate your property. I also look at niche opportunities to expand your target market to include tenants who traditionally don't have numerous rental options. Catering to these folks can lead to profitable real estate investing through long-term, stable tenancies and reduced turnover.

Considering Nonrent Revenue

Savvy rental property owners are always looking for additional ways to increase their buildings' incomes. Nonrent revenue is income from sources other than basic rent, such as laundry machines, storage, parking, Internet access, and furnished rentals, all of which I cover in the following sections. These services can not only earn you extra money, but also give your rental property the competitive advantage to attract and retain long-term tenants.

You can earn nonrent revenue whether you have a condo, rental home, small apartment property, or a large multifamily apartment building. Every property is different, so you need to evaluate what services or features you can put to work for you. The best way is to consider your property from the perspective of your current and prospective tenants. Although you should always focus on ways to maximize rent, if you have a single-family home or condo rental, your options are more restricted for nonrent revenue, such as charging for parking and storage, which are almost always included in the base rent in your case. But for single-family homes, you can at least have your tenants pay for all their own separately billed utilities, such as electricity, natural gas or propane, water and sewer service, and trash collection, If you own a multifamily rental property, you may be able to take advantage of other opportunities to generate income.

You can charge your tenants for these nonrent services and amenities separately from the rent, or you can bundle them with rent. The method you choose may depend on what's common practice in your area.

Earning some cash with the wash: Laundry machines

Providing your tenants laundry equipment is one of the best ways to increase your nonrent revenue. But your ability to meet this need probably depends on the size of your property.

If you own a single-family rental home, including a washer and dryer allows you to charge an extra $50 to $75 in monthly rent. The plumbing and connections are probably already installed (and if they aren't, they can often be added easily and inexpensively).

TIP

Unless you want to see all your potential profits go down the drain, make sure that your tenants pay for the utilities you provide, including the water and sewer charges. If they don't, see whether you can change that through a process called submetering.

Rental property owners with 2 to 12 rental units have the toughest time offering laundry equipment because they often lack appropriate locations for the equipment. If you can't install washers and dryers directly in the rental units, look for a place to build a common-area laundry facility. You may be able to convert a portion of the garage or build an enclosure in a carport space, but be sure that the location is safe and secure, as laundry machines are a target unless you use a cashless payment system. Always use a licensed, bonded general contractor, and get the proper permits.

Larger rental properties are ideally suited for common-area laundry facilities with coin-operated or (my preference and strong recommendation) coinless smart-card washers and dryers. Typically, one washer and dryer for every 8 to 10 units is sufficient, but check with other owners in your area to see what they offer. If you purchase your own equipment, you'll have an initial cash investment and the burden of ongoing maintenance, but you'll add to your net income. You can also negotiate competitive contracts with laundry-service contractors that install, maintain, and collect the revenue from the machines. They often pay bonuses and send you a monthly check for your share of the gross proceeds to cover your utility costs and generate a profit. Some laundry-service companies are willing to lease or sell you equipment with a service contract, and you handle your own collections.

TIP

If you use a laundry-service company, the standard split of the revenue is usually 50/50 between you and your laundry vendor, with your share covering all the utility costs. The best benefit for you is that the company installs the and maintains the machines, which could be difficult for your maintenance people to repair.

Stowing some dough: Storage

If your multifamily rental property doesn't have proper storage, you may be faced with the challenge of tenants who regularly leave items on their patios, on their balconies, or in their yards. If that's the case, your property can begin to look unsightly in very little time. Instead of getting upset with your tenants, keep in mind that they don't have much choice. New rental units are becoming smaller and smaller, and they often don't include adequate storage. At the same time, many renters are acquiring more possessions, and their need for storage is increasing.

TIP

Consider adding secure, weatherproof, lockable storage units. Ideally, your storage units should be at ground level, be at least 5 feet square and 6 feet tall, have a solid door and a heavy-duty locking mechanism, and be constructed of solid opaque material so that no one can see the contents. Quality storage units are great investments because the price per square foot of storage in many urban rental markets almost always exceeds the cost of the rental unit itself. Also, if you offer storage facilities with your unit, you'll have a competitive advantage that helps keep your property occupied and allows you to charge higher rent.

Selling your space: Parking

At many properties, parking is a real problem. A good solution — such as carports and garages, which are in high demand in many areas of the country — can be an excellent source of additional revenue. Look around. You may be surprised by the going rates for parking at other properties in your area.

If your property doesn't have extra parking, check to see whether you can add a parking area. Parking is very important to many tenants, who'll gladly pay for the convenience of a reserved space. Even if you have limited parking, consider charging separately for rent and parking. Some tenants may not have vehicles, so instead of including a fee in their rent for a parking space they won't use, you can keep their rent lower while generating additional income by renting parking spaces to tenants who need them. This approach also eliminates the potential for an "underground market" of tenants competing with you by renting their extra parking space to their neighbors.

TIP

If you charge for parking, be sure to implement detailed parking rules, and have reserved parking stickers or permits. Also, put up proper signage (in keeping with local codes, of course) that allows you to enforce your parking regulations through fines or towing. Your towing contractor should be able to provide the specific signage requirement or maybe even sell you the premade signs, with a signed contract giving them the exclusive towing rights for your property.

Converting the World Wide Web to cash: Internet access

Virtually everyone has a computer, and Internet access is a must for virtually all rental properties. The days of dial-up connections are gone, and the demand for access to ever-faster high-speed broadband Internet is rising. Currently, owners of small rental properties in suburban or rural areas can usually offer their tenants Internet access only through a local cable television, traditional phone, or Internet service provider (ISP) company. But some owners of larger rental properties have been able to negotiate master contracts with ISPs that provide revenue to the landlord when tenants sign up for service with the ISP.

High-speed Internet technology is improving all the time, and the costs to provide this service are dropping. Currently, these five basic types of high-speed Internet connections are available:

- Fiber Internet
- Cable Internet

- Digital Subscriber Lines (DSL)
- Satellite Internet
- Wireless Internet

TIP

Don't underestimate the importance of the availability of Internet access, including wireless, in your common areas if you have recreational amenities. You may not be Bill Gates, but you need to understand technology enough that you can answer your tenants' and prospective tenants' questions. If you have trouble with the terminology, ask service providers in your area for written information on the services they offer and the cost. Certain technologies are best suited and most cost-effective for certain properties and locations.

Cashing in on the ol' dining room set: Furnished rentals

The majority of rental properties are unfurnished because most tenants have their own furnishings. In urban areas, short-term renters may need furnished units, but this group is a specific market that's usually addressed by one or more major apartment owners or hospitality companies. In some suburban or rural areas, however, you can find demand for furnished rental units for short- or long-term rentals.

Your target market and location often have a bearing on whether you want to consider offering your units partially or fully furnished. Furnishing your rental is a major investment, but if your property is adjacent to a major employer that regularly relocates employees into the area, you can often generate significantly higher rents for a furnished unit.

TIP

Consider using a company that specializes in this market (a local company or a national firm such as CORT [`www.cort.com`]) if you're looking to competitively offer furnished rental units. This type of company can supply all the furnishings, housewares, and accessories, as well as provide corporate relocation referral services that can assist you in locating tenants. High demand for furnished, single-family homes or condos can be common in urban areas with major corporations, so be sure to do some research to see whether offering your property as a corporate rental is a good opportunity. The length of tenancy may be shorter with corporate rentals, but you can usually charge higher rent to compensate for the increased turnover and higher vacancies.

Putting Lease Options to Work for You

Offering short-term lease options is another way to generate additional cash. A lease option agreement generally consists of a standard lease and a separate contract that gives the tenant the right to purchase the property at a later fixed date or within a mutually agreed time frame. Lease option agreements typically require an up-front payment and/or monthly payments to secure the purchase option, which is often credited toward the down payment or the purchase price.

Although every lease option is unique, here's an example of how a deal may be structured for a rental home with a current market rent of $1,000 per month and a current market value of $120,000. Real estate forecasts indicate that appreciation will be 4 percent, or approximately $5,000, in the next 12 months. The tenant signs a 12-month standard lease and agrees to pay $1,200 per month, with $1,000 as rent and $200 as a nonrefundable option fee that will be applied to the down payment. At the same time, you and the tenant enter into a lease option agreement that offers the tenant the right to buy the property within the 12 months of the lease for $125,000. This amount is the mutually agreed, estimated fair-market value of the property by the end of the option period.

In this situation, you receive additional cash flow of $200 per month, and the tenant treats the property with care because they may very well be the new owner soon. If the tenant exercises the option, they receive a credit toward the down payment of $200 per month for each month they paid the option fee. On the other hand — because you used your standard lease form and guaranteed that the lease option documents were drafted properly — you still have the right to evict the tenant for nonpayment of rent or any other material lease default.

In most instances, the tenant isn't able to exercise the purchase option because they don't have the money for the down payment and closing costs. In the meantime, you increase your monthly rental income by $200 and have a good tenant. At the end of the option, of course, the tenant is well aware that they have paid an additional $2,400 in rent that would've been applied to the down payment or purchase price if they had exercised their purchase option. Depending on the circumstances, you can renegotiate an extension of the purchase option or negotiate a new lease without the purchase option.

REMEMBER

Lease options are a strategy to consider as a way to increase cash flow from your rental under the right circumstances. They can work very well or be a disaster if you don't have the right agreement in place. Both you and the tenant must have a thorough understanding of the unique benefits and challenges of lease options for them to benefit you both. Table 22-1 lists some pros and cons of lease options.

TABLE 22-1 Pros and Cons of Lease Options

Pros	Cons
The lease-option tenant is usually better financially qualified.	The lease-option tenant may not be willing or able to buy the property at the end of the lease.
The lease-option tenant pays a nonrefundable option fee up front or with rent that's applicable to the down payment or purchase price.	Lease options have income tax ramifications and can trigger due-on-sale clauses in your financing or a reassessment of your property under certain circumstances.
Strong demand for lease options exists; the tenant typically stays longer and often treats the property better.	The agreed option purchase price may be much lower than actual fair-market value of rental property if the property appreciates significantly during the option period.
A lease-option tenant may be willing to pay a top-dollar option price.	The lease-option tenant may not exercise the option and instead insist on the return of the extra rent paid or demand a renegotiation of the option terms.
You continue to receive the tax benefits of owning rental property.	A lease-option tenant who doesn't exercise the option after paying a large nonrefundable fee may get even by damaging your rental property.

The availability of lease options often fluctuates with the strength of the rental market. When you're having difficulty finding qualified tenants, a lease option may make good sense. If you have an abundance of qualified tenants, however, a lease option offers you fewer advantages.

Avoid long-term lease options of more than two years, because real estate appreciation can be very unpredictable. Don't provide a set option purchase price for any longer than one or two years, or be sure to include a clause that the purchase price will increase by an amount equal to the percentage increase in the average median home price in your area. Consider setting the option purchase price slightly higher than the current market rent in your area to account for potential significant appreciation in the property's value.

WARNING

If you decide to go with this option, hire a real estate attorney who has extensive experience in lease options to review your contract in advance. Lease options can have very serious business and ethical problems if they aren't drafted properly. An improperly structured lease option can be considered to be a sale and can trigger the due-on-sale clause with your lender, causing you to lose the tax benefits of depreciation and deductible expenses. Your property may be reassessed for property taxes; you may be liable for failure to comply with seller disclosure laws; or you may be prevented from evicting the tenant, even if they default on the lease. Keep the nonrefundable option fee reasonable so that if the value of the property declines or your tenant doesn't exercise their option for any reason, you can feel comfortable that you've treated the tenant fairly. Or you may want to renegotiate or consider offering an extension.

Taking Advantage of Government Programs

Housing is generally the largest single expense for many families, and the United States is facing a very severe affordable housing crisis. According to the federal government's definition, housing is affordable as long as the rent and utility costs don't exceed 30 percent of household gross income. But housing costs often exceed 40 percent of household income, and the lower a person's income is, the more difficult it is to make ends meet. So people who receive Supplemental Security Income or who work in low-wage jobs often have trouble finding affordable housing.

Rent growth slowed slightly during the economic downturn of 2008–2012, but the recovery from 2013 through early 2020 significantly increased demand for all types of housing, and rents moved steadily higher in most areas of the country. There is a tremendous need for new rental units in most areas of the country, yet construction of new rental housing is at all-time lows. When demand for rental housing exceeds supply, a shortage of available rental units occurs, leading to increased rents. In this situation, many tenants are forced to pay a large share of their incomes in rent.

Since the start of the COVID-19 pandemic, rents have been mixed, with significant increases in the high-demand areas of the country and decreases in lower-demand areas subject to prolonged COVID-19 shutdowns or increases in crime (sometimes significantly like in San Francisco and NYC and other major metropolitan areas). The combined effect is higher demand for rental subsidy programs, and this trend is likely to continue for the foreseeable future.

With such a shortage of decent, affordable rental units, low-income tenants have a difficult time finding rental housing. To make matters worse, many rental property owners have a firm policy of not accepting applicants who rely on subsidies to assist with their rent payments unless they are prohibited by law from rejecting those applicants. Owners' most common complaints about subsidy programs are that the allowable rents that can be charged are too low, the program administrators fail to cooperate and require program participants to comply with the terms of the owner's lease and house rules, and some property inspectors are unreasonable in their required repairs and extensive paperwork.

In the following sections, I review some of the benefits and concerns of rent subsidy programs for rental property owners. If you're not sure whether participating in rent subsidy programs is for you, read on.

The scoop on rental subsidy programs

A rental subsidy is a payment of some or all of the rent by a government or not-for-profit agency for the use and occupancy of a rental unit for qualified people. These people may receive subsidies as a result of insufficient income or disability, or through relocation-assistance or similar programs. Most aspects of the tenancy relationship with participants in rental subsidy programs are usually the same as with other tenants.

In some areas, the public housing agency will scrutinize any attempt to terminate the tenancy of subsidized tenants or encourage the tenants to seek legal representation to protect their rights. But landlords who are fair and reasonable and who document legitimate concerns about the tenancy shouldn't face any unreasonable hurdles in terminating a subsidized tenancy.

Local housing agencies, religious organizations, and charitable groups offer many types of rental subsidy programs. The majority of local rent subsidy programs offer only short-term assistance, whereas the Housing Choice Voucher program (covered in the next section) offers rental subsidies on an ongoing basis.

WARNING

Be careful with local rental subsidy programs that offer only short-term financial assistance to your tenant. Some programs provide payment of the security deposit, moving costs, and a few months' rent. But you need to be sure that the tenant meets your tenant screening criteria, including possession of sufficient income to meet the full rent and utility costs on an indefinite basis, so that when the short-term assistance runs out, the tenant can still pay you.

Some rental subsidy programs have limitations. But the need is significant, and many lower-income families and other needy tenants receive important assistance from them. Rental subsidy programs are targeted in their approach and allow you to retain control of tenant selection and most other aspects of the rental relationship.

The lowdown on the Housing Choice Voucher program

The U.S. Department of Housing and Urban Development (HUD) established the Section 8 program in 1974 to help very-low-income families, the elderly, and the disabled rent decent, safe, and sanitary housing in the private market. The program remains the largest rental subsidy program, with more than 10.4 million people in 5.2 million households participating, and is offered and administered through 3,300 public housing authorities (PHAs) throughout the country.

Section 8 is now called the Housing Choice Voucher program, or HCV. It's available to qualified low-income tenants and requires each tenant to pay a percentage of their monthly income toward rent, with the balance paid by the local PHA. You can find complete details on the program in the HCV Guidebook at www.hud.gov/program_offices/public_indian_housing/programs/hcv/guidebook. The next few sections give you an overview on what you need to know about the program.

Understanding how HCV works

The HCV program has two goals:

- To allow low-income households to gain access to a wider range of higher-quality neighborhoods and more choices in housing
- To reduce the concentration of low-income households in particular buildings and neighborhoods

A wide variety of residential rental housing qualifies for HCV certification, including single-family homes, condos, duplexes, apartments, and mobile homes. The rental unit must comply with HUD's housing-quality standards and occupancy standards guidelines, which generally allow two occupants for every bedroom.

REMEMBER

HUD allows you to establish your own occupancy standards for your property, which can be higher or lower than the federal standards. But be cautious about establishing standards that are more restrictive (fewer tenants in your rental unit), because they must be based on legitimate business reasons or be required to protect your tenants' health and safety. You must abide by more stringent state or local restrictions if they exist, of course.

The HCV program provides tenant-based housing assistance payments, in the forms of rental subsidies or vouchers that tenants can use to rent privately owned rental housing. Tenants with household incomes that are less than the published PHA maximum annual income by family size for a local area are eligible for HCV assistance. The overall income caps for families admitted to the HCV program are usually set between 50 percent and 80 percent of the local median income.

After qualifying, tenants receive HCV vouchers or certificates and have up to 60 days to locate rental units. In certain tight rental markets, tenants have up to 120 days to find suitable rental units. The local PHA makes inspections to ensure that the rental unit meets HUD's minimum housing-quality standards at the beginning of the tenancy, upon annual renewal, and upon request if the tenant believes that the condition of the unit is unacceptable.

The PHA pays the rental subsidy directly to the rental property on behalf of the program participant. Under this program, the tenant must pay whichever amount is greater — the PHA minimum monthly rent (which can be zero, but usually $25 to $50) or the total tenant payment, which is based on either 30 percent of a tenant family's monthly adjusted income or 10 percent of a tenant family's monthly gross income. Under another scenario, the family might receive payments for welfare assistance from a public agency, and part of the payments are specifically designated to meet housing costs. Usually, the calculation — based on 30 percent of adjusted monthly income — is the basis for setting the minimum tenant portion of the rent. If the tenant selects a unit with rent higher than the PHA limits, the program also provides for a maximum initial rental burden limit so that the tenant's share of the rent doesn't exceed 40 percent of their monthly adjusted household income.

The HCV rental subsidy is based on HUD's Fair Market Rent, available from local PHAs. At least annually, the PHA surveys the local rental housing market and determines the median rents and utility allowance for each unit type based on the number of bedrooms. The amount of rent that owners can charge is limited to amounts set by the local PHA that don't exceed a maximum of the HUD Fair Market Rent for the particular county. HCV tenants may choose rental units with higher rents than the PHA maximums and then pay the difference or choose lower-cost units and keep the difference for themselves.

WARNING

In some areas of the country, the maximum allowable rents are reasonable. But in many areas, the maximum rents set by the local PHA rule out many of the local rental units because they're too low. In these locations, HCV participants and rental property owners are effectively unable to work together to achieve decent affordable housing. The PHAs have been allowed to adjust the maximum HCV rents up to 10 percent higher than the HUD Fair Market Rent to be consistent with actual rents in the area and allow tenants more alternatives.

TIP

The maximum rents vary based on whether the owner or the tenants pay the utilities. In general, you're better off having the tenants pay their own utilities because the HUD utility allowances are typically insufficient, and owner-paid utilities don't encourage your tenants to conserve energy.

Knowing what to do if you rent to HCV tenants

If you take part in HCV, you're required to enter into a minimum of a one-year lease or longer with a participating tenant using your lease, plus a standardized HUD tenancy addendum. You're locked into the minimum one-year lease agreement except for nonpayment of rent or another serious breach. You must also sign a housing assistance payments contract with the local PHA authorizing the payment of rent, which can be deposited directly into your bank account.

TIP

Use your own standard rental application, rental contract, and all other forms and procedures. Attach the HUD tenancy addendum and HAP contract to your paperwork. If your HCV tenant doesn't pay their share of the rent, or if you have another problem, immediately notify your contact person or the tenant's case manager at the local PHA. Although the PHA is limited in what it can do, it can be helpful in resolving issues.

REMEMBER

Accepting HCVs makes your rent collection process more time-consuming and longer, as you will have two payments for each rental unit in the HCV program: One check comes from the local PHA, and the tenant pays their portion of their rent to you directly. Having your rent collection set up through ACH (Automated Clearing House) or electronic payments can help simplify the process, but you still need to make sure that you have both payments and that together, they cover the full rent due.

The greatest benefit to rental owners is that once the payments start, the local PHA pays the majority of the tenant's monthly rent like clockwork, and the tenant's portion is low enough that they usually don't have any problem meeting this financial obligation. Also, if the tenant fails to pay their portion of the rent, you have the right to evict them and apply the security deposit to any unpaid rent or rental unit damage. Most PHAs may formally or informally require you to contact them to resolve any issues before beginning an eviction action.

REMEMBER

Process an HCV tenant's move-out as you would the move-out of any other tenant, but be sure to notify the local PHA. The availability of HCV assistance is limited, with long waiting lists. This fact can be very helpful in motivating your tenants to be responsible, because the termination of their leases for nonpayment or other breaches often results in a loss of their rental assistance.

For most rental property owners, signing up to participate in the HCV program is very easy. Contact the PHA in your city or county for more info or to make sure that your rental rates are within the maximum guidelines. If they are, your local PHA will refer eligible applicants to you and prepare the necessary documents should you decide to rent to an eligible applicant. Make sure to obtain a copy of the HCV rules and procedures from HUD before determining whether the HCV rental program will work for you.

REMEMBER

You can't charge higher rent for an HCV rental unit than you would if you were renting the same unit to a private, unassisted tenant. Conduct regular market surveys of rents for comparable properties in your area to make sure that your rents are reasonable. Most PHAs conduct periodic audits, so be prepared to provide your local PHA documentation that supports the fact that you're collecting the same rate or a higher rate for a comparable non-HCV unit.

Summarizing the pros and cons of HCV

The HCV rental subsidy program can be a great resource for rental property owners in certain areas of the country. The key is to ensure the following:

- The PHA-determined maximum rental rates for your area are competitive.
- You can live with the HAP contract.
- You can add the required HUD Tenancy Addendum (which overrides your lease if there is a discrepancy).
- The PHA's inspection requirements are reasonable.

If these criteria are sound, HCV can provide you additional rental prospects. Screen the potential tenants carefully (as you would any other applicants), and work with the local PHA representative to avoid problems. (I provide pointers on tenant screening in Chapter 11.)

Participating in HCV may provide you stable, long-term tenants and market rents. The majority of the rent is paid by a government agency, and the tenants are highly motivated to pay their share of the rent and to abide by your rules and guidelines. But weighing the pros and cons is still worthwhile.

Here are some advantages to participating in the HCV program:

- You encounter less competition because many rental property owners refuse to participate (unless state or local law dictates that they must).
- A portion (often significant) of the rent is guaranteed by the local PHA and backed by the federal government.
- You retain full control of the initial screening and selection process, with the PHA providing the names and addresses of the current landlord and one previous landlord for verification and reference checking.
- You may collect a full security deposit up to the maximum allowed under state and local laws, and you may adjust rent annually, subject to PHA maximum rents for comparable rental units in the area.
- You gain a stable tenant profile with competitive rents and property that's inspected regularly.

And here are some disadvantages of participating in the HCV program:

- You must be willing to have an initial lease for a minimum of 12 months or longer.
- Additional paperwork leads to a delay in initial occupancy.

- The first payment is delayed, and you may have difficulty stopping payment when the tenant leaves.
- You must notify, and sometimes even seek approval from, the PHA before you can take any legal action for nonpayment and/or lease violations, as the PHA is often an advocate for the HCV tenant.
- You need to sign the contract, and use both your own lease or rental agreement in addition to the HUD tenancy addendum (HUD 52641-A), which states that if an item in your lease differs from the addendum, the addendum takes precedence.
- You receive two separate payments each month: one from the PHA and one from your tenant.
- You must meet HUD's minimum housing-quality standards through regular inspections by your local PHA and make all required repairs.
- Rents and utility costs can't exceed HUD's Fair Market Rent determination.

I have managed properties participating in the HUD Voucher Choice program for more than 40 years. Many times, the experience has been a win-win for both parties, but it can also be very frustrating if your local PHA seems to be very biased in favor of the tenant. You may face significant challenges if you have a tenant that breaks your house rules, disturbs the neighbors, causes damage to the common area, or violates the lease to the extent that you would normally terminate the lease or rental agreement. You may find the PHA aggressively advocating for the tenant despite not having any personal knowledge of the problems being created by this tenant.

In addition the HQS inspections are meant to be standardized, but some PHA inspectors will fail your unit for virtually nothing. I once had a unit fail an HQS inspection because the PHA inspector said there was a domestic house fly in the unit during the inspection. It probably entered the unit when the inspector came through the door! Also, some PHA inspectors will hold you responsible for the smallest details but overlook severe tenant-related issues such as hoarding, failures at basic housekeeping, and even damage clearly caused by the tenant like holes in the wall.

The 411 on rehabilitation loans

A large percentage of rental housing in the United States is old and in need of renovation and modernization. According to National Multifamily Housing Council tabulations from the latest U.S. Census Bureau's American Community Survey,

fewer than 25 percent of the apartments in the country have been built since 2000. Clearly, great opportunities exist for property owners to renovate rental units.

With the difficulty of providing new low-income rental housing, HUD encourages the rehabilitation of existing rental units through state and local government agencies, including the HOME program, Community Development Block Grants, and rural housing programs. Most programs are administrated by local PHAs, allowing owners of qualified rental units to obtain improvement grants or borrow money to upgrade and rehabilitate their properties. The grants cover weatherproofing and other health and safety issues, and the low- or even no-interest loans allow owners to make capital improvements.

As with most government programs, you can expect to fill out numerous forms and wait for processing, inspections, and approvals when you apply for a rehabilitation loan. Besides offering below-market interest rates, however, these loans are often assumable, which means that a purchaser is allowed to take over the below-market interest rate loan as part of their financing upon acquisition.

Some programs offer owners of larger rental properties rehabilitation funds if they provide housing for specific targeted groups. People with physical and mental disabilities find it difficult to locate private and affordable rental housing, for example, so if you rent to them, you may qualify for rehabilitation funds.

Demand for special housing for the aging population, as well as for people struggling with HIV/AIDS and substance abuse (sober living facilities), is growing. Because of the lack of new rental housing construction, the federal government is developing programs to encourage the renovation and conversion of existing rental units, particularly single-family houses, targeted for these particular groups.

Contact your local PHA or visit the HUD website at `www.hud.gov` for more information on funding programs and qualification standards.

Working in Niche Markets

Sometimes, thinking outside the box and looking for angles, such as niche rental markets that other rental property owners overlook or aren't willing to pursue, makes sense. You may own property in a soft rental market or just want to find a market niche where your rental units can outperform others.

The following sections explore several niche rental markets — ranging from students and senior citizens to nonsmokers and tenants with pets — that you can enter to your benefit. These niche markets may not be right for you, but be sure to at least consider whether you can dip into one or more of them and increase your cash flow in the process.

Taking another look at your pet policy

In today's rental market, one of the most effective strategies to keep your rental units occupied with stable, paying tenants is to allow pets. According to the 2020–21 American Pet Products Association National Pet Owners Survey, 70 percent of American households have at least one pet. That includes 69 million households with one or more dogs and 45.3 million households with one or more cats — a huge target market!

Although many rental property owners immediately reject the idea of allowing pets, the reality is that rental options are extremely limited for pet owners, so if you're one of the few landlords who accept pets, you immediately increase the demand for your rental unit.

TIP

Allowing pets under certain conditions can result in much higher rental income and fewer vacancies. Accepting pets can be successful if you

- **Have a rental property that's suitable for pets.** Some rental properties are particularly well suited for tenants with pets. An older rental property or one with certain features — such as a fenced yard, hard-surface flooring (rather than carpeting), and vertical blinds (as opposed to curtains) — is a good candidate for tenants with pets.
- **Verify through references and an interview that your tenant is a responsible pet owner.** Be sure to confirm all references, and ask specific questions about the pet. Meeting and spending a little time with the pet to determine its demeanor is a good idea. Be sure to complete the pet or animal agreement addendum to your rental contract properly, and have the tenant agree to your terms. Restrict your tenant from bringing in a pet with dangerous or potentially dangerous tendencies, and take a photo of the pet for your tenant file.
- **Implement and enforce stringent pet policies and rules.** For your pet policy to run smoothly, you need detailed rules, including a limit on the number of animals allowed. You also need to have clear policies about pet and tenant behavior outlined in a pet or animal addendum. You want to

forbid tenants to flush cat litter down the toilet, for example (otherwise you'll end up with clogged pipes), or allow large birds to roam free all day in the rental unit. Put limits on what you consider to be an acceptable pet; think about making exotic animals off-limits. Be sure that your addendum states that any violation of your pet rules can result in revocation of permission to keep a pet or, in severe cases, in an unconditional quit notice (which requires the tenant to vacate without the opportunity to cure the lease violation).

- **Require an extra deposit for tenants with pets.** Because so few rental properties accept pet owners, those that do are able to charge higher rental rates and collect much larger security deposits. Most responsible pet owners don't balk at a reasonable monthly rental rate premium or an increased security deposit of several hundred dollars, especially if your property is pet-friendly.

  Avoid using the label pet deposit; instead, just include the additional amount in your total security deposit. But check state statutes for language and limitations; many states have specific dog breeds that can be denied by landlords. If you were to use the label pet deposit, a savvy tenant or court could limit your use of those funds to damage that you can prove was caused by the pet. Your goal is to ensure that the rental rate and larger security deposit provide adequate compensation and protection against any damage to the unit that results in increased cleaning or repair costs.

WARNING

REMEMBER

Even "no pet" properties must accommodate renters who have companion or service animals if they're prescribed for a disability under HUD and U.S. Department of Justice guidelines. For more on this topic, flip to Chapter 11.

Renting to students

A large number of rental properties are located near colleges and universities; yours may be one of them. But many property owners have the same strong feelings against renting to students that they do about permitting pets. The major problem, however, is that (except for the service and emotional-support animal exemptions) you can legally have a no-pets policy, but you can't unlawfully discriminate against students if they meet your tenant screening criteria. Though students aren't a federally protected class, there's a trend among more progressive local municipalities with a large student population (such as Madison, Wisconsin; Austin, Texas; and Washington, D.C.) to establish students, or "matriculation" in general (the action or process of being enrolled in an educational institution), as a protected class in their jurisdictions.

DECIDING WHICH DOG BREEDS TO ALLOW

A landlord is virtually guaranteed to be sued if a dog bite occurs on their property; the issue is whether the landlord acted reasonably in allowing the animal to reside on-site. Unless state or local laws prohibit a certain dog breed, the decision to accept or reject a specific dog or breed of dog as a pet remains with the landlord, unless your state or local jurisdiction prohibits such breed limitations, which is becoming a trend in some areas of the country. Before accepting a dog of a breed that you're not familiar with, I suggest that you have the prospective tenant offer a written note from a veterinarian indicating the dog's breed and its suitability for your rental unit. This note may not completely protect you in case an incident occurs and you're sued, but it will certainly show that you made a reasonable effort to make a prudent decision.

Your decision may be affected by the fact that some insurance companies don't extend coverage to certain animals and certain breeds of dogs. Note that if the animal isn't a pet, but an assistive animal necessary because of a disability, you should work with your insurance company to attempt to extend coverage for this purpose. If you're unsuccessful, you should seek alternative coverage so that you can reasonably allow the disabled resident to have the animal they need. Landlords have the right on a case-by-case basis to assess the reasonableness of the size and type of assistive animals. In other words, a companion elephant or rattlesnake wouldn't be acceptable.

Note that the Humane Society of the United States is among the many pet advocacy and rescue organizations that are becoming increasingly involved in addressing the issue of pets in rental housing. The Humane Society offers advice and tips for both tenants and rental owners on its website, `www.americanhumane.org/fact-sheet/pets-in-rental-housing`. This resource and others like it can provide great information. As a bonus, following the Humane Society's guidelines can show that you were reasonable in your decision to accept a dog.

The National Multifamily Housing Council has researched the nationwide student housing market and points out that as the millennial generation has aged, the college-aged population (ages 18–24) has declined and there are fewer housing opportunities. However, you may find pockets of investment opportunity, and overall, the NMHC July 2021 White Paper entitled "The Future of U.S Student Housing Demand" predicts that from 2020 to 2031, enrollment in post-secondary schools will increase annually by around 1.1 percent. The Council studied 70 student housing markets across the country and found that the demand for off-campus, privately owned single occupancy student housing units is very high.

One of the most common problems with renting to students is the fact that students have special needs regarding the lengths of their leases. Many schools are in session for only four or five months in the fall and spring and two or three months

in the summer. If you offer only a 12-month lease, you may end up with student tenants who default on their leases and leave right after the end of the quarter or semester.

TIP

If your rental properties attract prospective student tenants, be sure to adopt policies and leases that allow you to take advantage of this large target market while minimizing its downside. One strategy is to offer 3-month and 9-month leases at a premium rental rate rather than the 12-month leases available at competitive rental properties. Students attending the fall and spring sessions will be delighted with the nine-month term, and summer students will go for the three-month term.

The other primary concern with renting to students is their behavior. Mitigate this risk by implementing strict policies concerning noise and, ideally, having an on-site manager to enforce them. Be sure to consistently require a larger security deposit and/or cosigner or guarantor of the lease at properties where you rent to students. Also, you should insist on receiving the full rent each month in a single check (as explained in Chapter 15).

Catering to senior citizens

The need for rental housing for active seniors is increasing as America's rapidly expanding population of older adults chooses to maintain and prolong its independent living status. The Population Reference Bureau, using data from the U.S. Census Bureau, estimates that the number of seniors (age 65 or older) will swell to 95 million by 2060. As a result, many rental property owners are finding senior housing to be a great investment opportunity.

Senior rental housing is no longer required to offer "significant facilities and services" designed for the elderly, but it must show that one person who's 55 or older lives in at least 80 percent of the occupied rental units. Federal law also requires rental property owners to follow policies and procedures that demonstrate intent to provide housing for people age 55 and older. This requirement typically means that you must post a sign outside and that all literature you provide to the public must include a statement indicating that housing for older people is available.

WARNING

Before designating your multifamily rental property as housing for older people, check with an attorney about discrimination laws in your area. (Note, however, that qualified rental properties for seniors can exclude families with children without violating the Fair Housing Act.) Many state and local fair-housing laws may still be modeled after the former federal law requiring owners to provide "significant facilities and services."

Seniors typically are excellent long-term tenants, but do some research to determine whether your property is ideally suited for them. Evaluate your units to consider their proximity to local transportation, shopping, medical facilities, senior centers or activities, and places of worship.

TIP

If your property has services and facilities for seniors, prepare to attract that target market. Be sure to advise local agencies that cater to seniors about the availability of your rental units.

Designating your rental units smoke-free

One of the most controversial issues in rental housing management in the past decade concerns the ability of a property owner to restrict the use of rental units to nonsmokers. The growing trend in the United States is to restrict smoking in almost all public areas, and the elimination of smoking on airplanes has even become widely accepted internationally. Although the hotel industry successfully implemented policies offering both smoking and nonsmoking rooms for years, rental property owners are just starting to embrace this option seriously.

I've found that strong demand exists for properties where smoking is partially or completely restricted. One frequent complaint I received from tenants who wrote to my nationally syndicated "Rental Forum" newspaper column was about neighbors' secondhand smoke. Unfortunately, in some properties, tobacco smoke can drift from one rental unit directly into another. The smoke can enter from hallways, stairs, balconies, and patios, usually through windows and doors, but sometimes also from the building's common ventilation system.

The majority of Americans are nonsmokers. Smoking is considered to be a controllable behavior, not a disease, so people who smoke aren't categorized as a protected class under federal and state fair-housing and antidiscrimination laws. Although tenants who smoke need places to live, so do nonsmoking tenants who want to avoid drifting secondhand smoke.

REMEMBER

The best way to control behavior and reduce the risk that you'll be accused of arbitrary discrimination or unfair business practices is to focus on the behavior rather than the person. You need not inquire whether an applicant smokes; just have enforceable policies regarding smoking.

WARNING

Currently, no federal or state laws prohibit you from adopting a policy that requires all or part of a building to be smoke-free, including individual rental units. Some states are beginning to pass laws protecting tenants. Because the rights of people who smoke and those who are opposed to secondhand smoke are constantly changing, be sure to check local and state laws in your area before deciding to implement a smoke-free rental program.

Following are some good business reasons to consider offering smoke-free rental units:

- Lack of damage from cigarette burns
- No need to clean carpets, drapes, and other surfaces thoroughly or repaint the unit just to remove the permeating smell of smoke
- Potential for reduced insurance premiums

Some groups promote rental properties that don't allow smoking on the premises. For years, the Smokefree Apartment House Registry in Southern California (`www.smokefreeapartments.org`) has offered a free listing service to rental property owners with total or partial smoke-free policies. The registry now has smoke-free rental property listings in more than 25 states, supporting my belief that this concept is finally reaching widespread acceptance and will be increasingly popular throughout the country in the next few years.

Although you can simply put a "no smoking allowed" clause in your rental contract, I recommend surveying your current tenants before doing so. You may find that prohibiting smoking in common areas, in rental units, on balconies, and on patios is a popular idea — or you may meet more resistance than you anticipated. Knowing where your tenants stand on this issue should be an important part of your decision.

REMEMBER

Designated smoke-free units allow no smoking of any type, but the tenants don't have to be nonsmokers; they just have to agree not to smoke inside the unit. This scenario may sound like a distinction without a difference, but it's a fair-housing issue. How will you know whether someone violated the rules by smoking in your smoke-free unit? Well, any significant or ongoing level of smoke typically permeates all surfaces, including walls, ceilings, carpets, and window coverings, and the smell is readily noticeable by nonsmokers. The problem can be very difficult, if not impossible, to resolve short of replacing all materials that have become saturated with smoke. A case can be challenging to prove in court, as the sense of smell is not easy to share, but personal testimony or a sworn statement from one of your vendors can be very helpful in proving your case.

TIP

As with any major policy change, be sure to implement conversion to a smoke-free property upon tenant turnover or only after giving proper legal notice to current tenants. If you want to implement a smoke-free policy at a larger property, start by prohibiting smoking in all common areas, such as the rental office, laundry room, and recreational facilities. Then you can expand the policy to individual units if the program is positively received by your tenants.

To see a sample smoking policy addendum from the California Apartment Association, go to `www.wiley.com/go/propertymanagementkitfd4e`.

6 The Part of Tens

IN THIS PART . . .

Discover great reasons to buy residential rental property.

Get tips on renting a vacant unit.

IN THIS CHAPTER

- Investing in real estate to diversify, generate income, get tax advantages, and build wealth
- Understanding the benefits of holding residential real estate properties over the long term

Chapter 23

Ten Reasons to Become a Residential Rental Property Owner

Owning rental property isn't for everyone. So if you're just starting to think about investing in real estate through residential rental property, check out these ten great reasons to take the plunge. (Disclaimer: I should point out that I believe so strongly in real estate investing that I wrote *Real Estate Investing For Dummies* with Eric Tyson.)

You Can Diversify Your Investments

Buying rental property helps you vary your investments. Owning your own home is a first step toward diversification, but owning rental real estate is a prudent strategy to protect your assets from volatility in certain areas of the economy. Unlike owning your own home, owning rental property that someone else calls home is an investment because it gives you a tangible asset and allows you to use other people's money to build your wealth. When you invest your cash as a down payment or equity and then borrow the balance of the acquisition cost to buy real estate, you are using the lender's money to maximize your return on investment.

You Don't Need Much Money to Start

A lack of money is often cited as the number-one factor that keeps people from investing in real estate. But typically, you can purchase real estate for a down payment of 20 percent or less, with the balance provided by others. After the economic downturn of 2008–2012, there has been a surplus of capital, and real estate loans continue to be readily available at very competitive terms throughout the United States. Some sellers, who have significant equity from owning their income properties for many years, are willing to assist buyers by financing a portion of the purchase price, especially if you pay the seller a competitive interest rate on the financed amount, as the rates of return on cash investments remain at record lows.

TIP

If you're a first-time home buyer, you may qualify for up to 100 percent financing. So basically, you can take advantage of a first-time home buyer program, build up equity in your home, and then refinance it to generate additional capital, which you can use as a down payment on rental property.

It Can Be a Second Income

While real estate values may have dropped in most areas of the country during the economic downturn of 2008–2012, they have rebounded significantly within many areas of the country as real estate has become the most desirable type of income property. The list of the 400 richest Americans published annually by Forbes magazine shows that real estate has played a key role in making many of the world's great fortunes.

The majority of residential rental real estate in the United States is owned by middle-class people of all backgrounds and ages who sought viable opportunities to augment their incomes. Real estate investing can truly begin as a part-time job and supply a second income. But at some point, the most successful real estate wealth builders transition to full-time real estate investing, and many such investors also handle their own property management, at least initially.

You Gain Tax Advantages

The federal tax code has many unique advantages for real estate but is always subject to change, depending on the taxation policies of the current administration. Currently, property owners can benefit from expense deductions, depreciation write-offs, tax-deferred exchanges, a step-up in basis upon death, and

favorable capital-gains tax rates. Owning and operating rental property is a business, and the tax laws allow deductions against your rental income for the cost of payroll, property management, advertising, maintenance and repairs, utilities, insurance, and property taxes.

REMEMBER

You can depreciate your rental property (everything but the land), giving you another tax break. Current federal tax laws allow you to depreciate your property improvements over a 27½-year life span. The depreciation loss can reduce your taxable income or give you a taxable loss on the property, even if you have a positive cash flow. After depleting your depreciation on income-producing real estate, you can take advantage of IRS Code 1031 (also known as a tax-deferred Starker exchange) to postpone taxation on any gain by rolling your equity into a new and a higher value or often larger rental property.

TIP

With or without major changes in politics, tax codes change from year to year, so discuss your personal tax situation with your accountant, tax attorney, or tax preparer.

Real Estate Holds Its Value

Real estate is one of the most popular investments available because income-producing rental properties have held their value, and (if they're well maintained and upgraded to stay competitive) they've consistently increased in value through many economic cycles over the decades. Throughout history, the tangible nature of real estate has been extremely important to both people and the economy.

REMEMBER

Real estate is cyclical. Many businesses have their ups and downs, and real estate is no exception. But real estate usually rebounds and grows in value after a slump, which happened with the most significant economic downturn in this century from 2008–2012. Historically, many solid real estate investments have declined for a period but then grown again in value. Think of market downturns as buying opportunities. Real estate appreciates because its quantity is limited. Over the long run, real estate is an established performer that offers a solid foundation for your financial future.

You Get Leverage

Real estate leverage involves using mortgage financing to purchase an investment property with only a small cash outlay, with the expectation that appreciation and inflation will create a disproportionately high return on the original cash

investment upon sale. The key to using leverage successfully is having a mortgage interest rate lower than the return on your real estate investment. Here's an oversimplified example: A buyer purchases a $150,000 rental home for $30,000 cash down and a $120,000 loan at a 5 percent interest rate. If the property appreciates and sells in three years for a net of $180,000, the owner will have earned $30,000, or a 100 percent return on their money. This situation is called positive leverage. Conversely, high interest rates and flat real estate values with no increases in cash flow result in negative leverage, and undercapitalized investors may lose their properties.

It Beats Inflation

Inflation is the loss of buying power as prices rise. Most investments — such as money-market accounts, bonds, stocks, and mutual funds — have trouble keeping up with the inflation rate. Thus, investors in these assets often find that they lose purchasing power over time.

With the significant increase in the national debt over the past several years, including unprecedented federal deficit spending during the pandemic, there are legitimate reasons to be extremely concerned about inflation and the ability of some non-real-estate investment alternatives to retain their future buying power of the dollar versus other world currencies. Historically, however, real estate has been a formidable tool in the battle against inflation. When you purchase rental property with fixed-rate financing, the property's price and financing cost are set. Other operating costs, such as property taxes and utilities, are bound to increase, but rental property owners can typically increase the amount of rent they charge to offset these heightened costs. Rent control or temporary softness or downturns in the rental market may delay rent increases in the short run, of course, but historically, real estate cash flows have been able to maintain an owner's purchasing power in the long run.

You Can Shelter Your Income

REMEMBER

Currently, the tax laws affecting real estate offer tax advantages to people who are actively involved in managing their rental properties. If you're an active investor, and you don't exceed the adjusted gross income limits, you may qualify for substantial deductions (up to $25,000 per year) of your rental property losses to reduce your taxable earned income from other sources, a process known as sheltering other income. Using a property management firm doesn't preclude you from taking advantage of these tax write-offs as long as you're involved in setting

the rents and policies for your rental property. Merely reviewing your monthly financial reports or driving by your property a couple of times a year won't qualify, but regular communications and discussions with your management company do. Keep records that you can produce if necessary to document that you are indeed an active investor.

Real estate investors who can be classified as real estate professionals are permitted to deduct all rental real estate losses from their ordinary income, such as current employment income (wages and commissions), interest, short-term capital gains, and nonqualified dividends. Any real estate losses that exceed these other categories of income in the current year can be carried forward to future tax years.

The requirements to achieve the status of real estate professional are strict; consult your tax adviser. See *Real Estate Investing For Dummies*, by Eric Tyson and Robert Griswold (John Wiley & Sons, Inc.), for all the details.

You Get a Positive Cash Flow

Rental property owners know that the right investment property generates sufficient rental income to cover the property's mortgage and operating expenses. And after the tax advantages of depreciation, real estate generally provides positive cash flow. This pattern may not hold true in the first few years of ownership, but positive cash flow is a real benefit for many investors. Don't get greedy, however, by taking out too much cash flow or failing to upgrade and modernize your property through proper maintenance and capital improvements. Ongoing, timely investments will reduce your overall operating expenses in the long run, as well as maximize your income by keeping your property competitive and extending its useful life. After the mortgage has been paid, while still putting money back into your property, you'll find that the positive cash flow can be very significant.

It Can Help You Retire

Real estate investment is one of the best methods to fulfill the dream of building wealth and retiring comfortably. This worthy goal requires a diversified investment strategy, with assets that are purchasable with leverage, generate cash flow, appreciate consistently over time, and maintain their purchasing power in an inflationary environment. As with most investments, the earlier you begin your real estate investment career, the better your results. Buying and holding the right rental properties for 20 to 30 years is an ideal way to hedge inflation, take advantage of unique tax benefits, and build wealth for retirement.

IN THIS CHAPTER

- Keeping your residential property appealing and rent-ready
- Offering new tenants various incentives to move in
- Making use of corporate relocation services and Housing Choice vouchers

Chapter 24

Ten Ways to Rent Your Vacant Rental Unit

Every day that a rental unit sits vacant is a loss of revenue you can never fully recover, regardless of whether you eventually secure higher rent. In this chapter, I give you ten tips to help you rent your vacancy right away.

Maintain Curb Appeal

Your rental prospects form their first impression of your property as soon as they see it. If the property doesn't look clean and attractive on the outside, they often don't wait to see the inside. Your chances of leasing your rental unit at a competitive market rent to a stable, financially solid prospect are seriously affected if your property doesn't have good curb appeal. You can't always improve the property's physical appearance dramatically, but you can usually control the appearance of its grounds. Buy annuals when they're in season and on sale, keep the lawn mowed and watered, and trim and fertilize the trees and shrubs. A great-looking yard can be your best marketing tool.

TIP

Familiarity is the enemy of rental property owners; when you're familiar with your property, you may have trouble looking at it with an independent and critical eye. Drive up to your property, and continually ask yourself this question: What looks tacky or poorly maintained? You may really have to focus, but you'll find several items that need immediate attention. Take care of them now.

Keep the Unit in Rent-Ready Condition

Distinguish your rental unit from the others by keeping up its professionally maintained, clean, bright, and airy appearance. This noticeable difference will appeal to the best rental prospects.

Although you may eventually find a tenant who's willing to accept your rental unit before it's in rent-ready condition, you can almost guarantee that the unit will be in worse condition when that tenant vacates. Landlords with an "I don't care" attitude attract — and deserve — the same attitude from their tenants. Naturally, the tenant will argue if you try to take any deductions from their security deposit, and the courts will probably side with them because the unit wasn't clean originally. Spare yourself this agony; make having a rent-ready unit that's clean and defect-free your goal.

TIP

Be sure to use, and have your new tenant sign, the move-in/move-out inspection checklist from Chapter 12 to acknowledge that the rental unit is in acceptable condition when they take occupancy. Be sure to correct any noted deficiencies, of course, and have your tenant initial the original form to indicate that problems were resolved to the tenant's satisfaction. This one step, along with plenty of digital photos showing the condition of the rental unit at the time of move-in, will spare you a lot of arguments and grief if there is a dispute when the tenant vacates the property, it will likely allow you to prevail in court if the dispute goes that far.

Establish a Competitive Rent

If you don't have vacancies on a regular basis, and you're in a market where rents are fluctuating, setting the rental rate at the right amount can be a real challenge. Be sure to do your research; carefully review the local market for rental properties that are truly comparable to yours. If you set your rent too low, you'll have multiple qualified applicants, and you'll be able to select the best one, but you won't maximize your rental income. If the rent is too high, you'll suffer lost rental income. The key is to set your rent at or slightly below the market rent for your area.

This approach isn't magic. Your competitors don't always know all the answers and may set their rents higher or lower than market rent because they didn't do a market survey. So don't just pick a number out of thin air or charge what the owner down the block is asking. Be confident enough to ask for a solid rent in your market, one that's at the top of the rental rate range in which your property fits. If you sign a lease at a lower rent than you could have gotten, you'll never recover that lost income.

TIP

If you're in an area that has state or local rent control, you need to be extra-careful, as your initial rental rate will be the base rent for all future rent increases. If the rental market is experiencing temporary softness, you'll want to keep your initial or base rent as high as possible and still attract qualified tenants with a fair, effective rent by using one-time rent concessions such as "free rent" either up front or even averaged over the term of the lease. The key is to have a stated base or initial contract rent that is reasonable for the market but at the higher end of the market rental rate range. That way, you won't be negatively affected for the rest of the tenant's occupancy, which could be many years.

Offer Prospects a Rate Guarantee

Prospective tenants may feel comfortable with your current rent, but virtually all rental prospects are concerned about your ability to raise their rent unilaterally unless you offer a lease. A long-term lease isn't in your best interest, of course, because you can't increase rent and may have trouble evicting a problem tenant.

TIP

If you know that you don't intend to raise your new tenant's rent in the near future, offer them a rental-rate guarantee in writing for a set period. This move allays their fear of being hit with an unreasonable rent increase soon after moving in. It also helps you avoid getting locked into a long-term lease that may one day lead to expensive and aggravating court action.

Provide Wireless Internet Access

High-speed Internet connections have become critical to rental property owners who seek to remain competitive, but the options vary depending on where your property is located. One thing's for sure, though: Tenants like having wireless Internet access. Partner with local Internet service providers to see what kind of deal you can work out to supply wireless Internet access for your property. If you have a larger rental property, the provider may well cover the installation costs,

especially if you also have a bulk-rate contract for cable and Internet services for all your rental units. If you own a single-family or small property, you may be able to arrange free installation if the tenant commits to subscribe to the service for a minimum period.

Offer Referral Fees

Your current tenants or your rental property neighbors can be the best sources of tenants. They may work with, go to school with, or participate in activities with someone who's looking for a new rental. Let them know that you have an upcoming vacancy and that you'll reward them for referring a rental prospect to you. Referral fees can be an extremely cost-effective source of qualified renters. You need to determine what a motivating referral fee is in your area, but I commonly see fees of $200 to $500, with an extra $200 offered during the holidays or slow rental-traffic times of the year. Another benefit is that most people don't refer potential tenants whom they don't respect and trust. Referral fees allow tenants to make some money and have a hand in referring their own potential neighbors.

Accept Pets

Rental property owners who don't accept pets immediately disqualify nearly 70 percent of the country's potential renters, according to the Humane Society of the United States. With the requirement to accept certain animals for tenants who qualify under federal law, including the Americans with Disabilities Act (see Chapter 11), many owners find their ability to keep animals out of their buildings diminished.

So if you can't beat 'em, why not join 'em? Good pet owners and their pets can make wonderful renters. If you establish sound pet policies, collect a larger security deposit, and meet both the tenant and the pet, you'll often find that you have an excellent, stable tenant for many years to come.

Offer Move-In Gifts or Upgrades

The word free is one of my favorite words — and one of the most powerful sales tools ever. The word new is also very persuasive. If you want to rent your vacancy today, seriously consider offering your prospect a move-in gift or an upgrade to

the rental unit. Every day your unit sits vacant, you're losing money you'll never see again, so you may as well sweeten the pot. See Chapter 22 for many ideas on how to upgrade your rental unit.

You have a choice: You can offer a move-in gift that immediately belongs to the tenant or an upgrade to the unit that stays when they leave. Countertop microwave ovens make great move-in gifts, whereas a built-in microwave range hood or ceiling fan is an excellent unit upgrade. If you're planning to replace the carpet, consider giving your incoming tenant the option to choose the color. This option can also work for a painted accent wall in the dining area, living room, or bedroom. I prefer upgrades that permanently improve units rather than move-in gifts that will leave when your tenants vacate.

Contact Corporate Relocation Services

Many areas of the United States have high demand for rental units for corporate employees relocating to the area. In particular, corporate relocation services have an extremely difficult time finding rental properties for families of executives who require single-family homes with yards and plenty of storage. These services are often willing to pay above-market rents for rental units or homes on short-term leases of 6 to 12 months. From your perspective, the additional turnover can be worthwhile if the rent is enough to cover the costs of vacancy gaps between corporate rentals and the extra rental unit prep expenses. From the services' perspective, your rent is much cheaper than placing their clients in extended-stay lodging.

Some corporate relocation pros may want to lease your property for multiple years, provided that they can move in different occupants. Make sure that you have very firm house rules, set a reasonable limit on the frequency of tenant turnover, collect complete information on the occupants (including following your normal applicant screening procedures), and require a detailed inspection upon each move.

Accept HUD's Housing Choice Vouchers

The U.S. Department of Housing and Urban Development's Housing Choice Voucher (HCV) program (see Chapter 22) is administered by 3,300 local public housing authorities (PHAs) throughout the country. In some states and jurisdictions, property owners and managers are required to accept HCV applicants. Some

of those agencies aren't easy to work with, however. They may have unreasonable interpretations of housing-quality standards and will randomly assign your rental unit a failing score (which often means you wait another 30 days for a new inspection). Others have maximum allowable rents that are well below market value. If these factors aren't a problem in your area, you may find some tangible benefits in participating in the HCV program, such as the following:

- Your vacancy won't last long because of the severe shortage of rental units available for HCV tenants in many areas.
- As the tenant has to pay only a portion of your rent up to 30 percent of their income, the government pays the majority of the rent promptly each month, so you have that guarantee.
- HCV applicants still have to go through your initial screening and selection process.
- You can adjust your rent annually up to the PHA's allowable rent level, and you can collect a full security deposit up to the maximum allowed under state and local laws.
- You avoid claims that your unit is not maintained properly, as the PHA will conduct a pre-move-in inspection and annual inspections upon lease renewal.

Appendix

About the Online Kit Materials

The online materials that accompany this book are everything you need to make your life as a property manager much easier. To access the forms and documents, go to this website:

www.wiley.com/go/propertymanagementkitfd4e

The site includes all the great forms you see in this book, plus a whole lot of extra forms that are useful for effectively managing rental properties.

REMEMBER

Landlord-tenant laws vary from state to state. Although I encourage you to use the online forms at your properties, be sure to have them reviewed by a local landlord-tenant legal expert before using them.

All the forms in this book, as well as the more than 60 additional forms I developed to make your job as a property manager much easier, are on the website. Here's a breakdown of the documents available to you:

- **Chapter forms:** In most chapters, I reference forms that are helpful, including everything from an Animal Agreement to the Tenant ACH Debit Authorization Form. Most of the forms I reference in the book are in this folder.

- **Rental contract forms:** The site includes a sample Month-to-Month Rental Agreement and a sample Lease Agreement. Use them as starting points for crafting your own rental contracts that comply with your local landlord-tenant laws.
- **Rent collection forms:** Some of the rent collection–related items I've included are Courtesy Rent Reminder Cards, a Rent Adjustment Notice, and a Notice of Cash Payments Only for three months for tenants whose checks are returned.
- **Association-related forms:** The site offers forms to help you notify the association that you're renting your unit.
- **Vendor- or employee-related forms:** Some of the documents found in this folder include a sample Landscape Maintenance Contract, an Employee Warning Notice, and a Vendor Contract for Services Addendum.
- **Institute of Real Estate Management forms:** IREM (`www.irem.org`) has generously permitted me to share nearly 150 forms from its residential form database, including a basic Residential Management Agreement. The IREM forms are published with the consent of the Institute of Real Estate Management. And I have to include this disclaimer: These sample forms and agreements are not endorsed by the Institute of Real Estate Management. They are presented for informational purposes only and should not be relied upon for accuracy, completeness, or consistency with applicable law. The user is advised to check all applicable state and federal law before using these forms, agreements, or parts thereof. Because certain forms have legal implications (e.g., management agreements, rental applications), it is recommended that downloaded versions of such forms should be reviewed with legal counsel prior to their use and that any modifications made by the user should also be reviewed by legal counsel.
- **California Apartment Association material:** The CAA (`www.caanet.org`) is a great resource for rental property owners and managers in California. I strongly encourage you to look into joining if you live in California. As a preview of what you can find in the database, the CAA has graciously allowed me to give you a small sample with these six forms: Bedbug Addendum, Mold Notification Addendum, Move-In/Move-Out Itemized Statement, Renters Insurance Addendum, Satellite Dish and Antenna Addendum, and Smoking Policy Addendum.
- **Legal Information:** Throughout this book, you see references to the importance of verifying state, and sometimes even local, landlord-tenant laws. On the site, I share the web links and specific code sections for the most common landlord-tenant statutes by state. These regulations are constantly in flux, so making sure you have the latest information is essential.

- **Bonus Part of Tens Chapter:** You'll find ten of the biggest mistakes landlords commonly make and what you can do to avoid them.
- **Educational Opportunities and Professional Designations:** Ongoing education is important for all rental property managers. Aside from this book, one particularly valuable source of education on leasing and management skills is the My Leasing Coach online video program taught by Kathy Harmon. To find out more about this great educational tool, simply call 612-850-3123. Both IREM and the National Apartment Association (NAA) have local affiliates you can contact to attend their educational courses and regular meetings.
- **Resources:** Although this book has a lot of great information, you need to know much more as a rental property owner or manager, so I've developed a comprehensive resource database with details on professional and trade organizations; governmental agencies, including the Department of Housing and Urban Development (HUD) and the Environmental Protection Agency (EPA); media and newsletters; and rental housing industry vendors and suppliers.

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About the Author

Robert S. Griswold is the coauthor of *Real Estate Investing For Dummies* with Eric Tyson. He earned a bachelor's degree and two master's degrees in real estate and related fields from the University of Southern California's Marshall School of Business. His professional real estate management and investing credentials include the CRE (Counselor of Real Estate), CPM (Certified Property Manager), ARM (Accredited Residential Manager), RPA (Real Property Administrator), CCIM (Certified Commercial Investment Member), PCAM (Professional Community Association Manager), CCAM (Certified Community Association Manager), and GRI (Graduate, Realtor Institute).

Robert is a hands-on property manager with more than 40 years of practical experience, having managed more than 1,500 properties representing more than 70,000 residential rental units. He owns and runs Griswold Real Estate Management, Inc., a property management firm with properties in California, Nevada, and Texas.

For nearly 15 years, starting in 1995, Robert was the real estate expert for NBC San Diego, a network-owned and number one–rated station. Every Saturday, he provided impromptu answers to viewers' real estate questions live on the air during *NBC News This Weekend.*

Once a week for nearly 15 years, Robert hosted a live, call-in, real estate news and information talk show called *Real Estate Today! with Robert Griswold,* heard throughout southern California on Clear Channel's AM 600 KOGO radio station and around the world on the show's website at `www.retodayradio.com`. He has twice been named the #1 Radio or Television Real Estate Journalist in the Country by the National Association of Real Estate Editors (NAREE) in its annual Journalism Awards Program. The first award was for *Real Estate Today! with Robert Griswold,* and the second was for his work for NBC News.

Robert was the lead columnist for the syndicated "Rental Roundtable" landlord-tenant Q & A column, which was also featured in the *San Diego Union-Tribune,* the *Los Angeles Times,* and the *San Francisco Chronicle.* For many years, he also wrote a nationally syndicated column, "Rental Forum."

He's a nationally recognized real estate litigation expert, having been retained on more than 3,000 real estate legal matters in 40 states and serving more than 200 times as a court-appointed receiver, referee, or bankruptcy custodian.

Since 1988, Robert has been an Instructor and a member of the national faculty of the Institute of Real Estate Management (IREM), and he also has served as a National Apartment Association (NAA) and California Department of Real Estate Certified Instructor. He's a licensed California and Nevada real estate broker, a Realtor, and an active member of the NAA, the California Apartment Association, and the Southern California Rental Housing Association. Robert served as a planning commissioner for the City of San Diego from early 2005 to mid-2013.

In his spare time (?!), he enjoys travel (especially cruising) and has relished watching his children excel in all aspects of life, including parenthood, academics (University of San Diego, University of California at Irvine, Point Loma Nazarene University, and UCLA) and sports, especially soccer. Robert wishes he had more opportunities but savors those precious times when he, his wife, Carol, and their four adult children (Sheri, Stephen, Kimberly, and Michael) and their spouses can travel together, enjoy the holidays, or even have an old-fashioned family game night. Above all, he tries to retain his sense of humor and truly enjoy what he's doing!

Dedication

I dedicate this book to my grandchildren, who at this moment include Brooks, Grayson, Lucas, Rylie, and Alessia. Of course, this was possible only because of my best friend and wife, Carol, with whom I have celebrated nearly 40 years of marriage. Carol played a key role in, and deserves much of the credit for, successfully raising our four children to become fine adults. But I also appreciate her many years of love, friendship, support, patience, and persistence in attempting to bring the proper balance to my life, which starts with putting God first in everything I do. Of course, life's always exciting and has real meaning with our growing family, including our five precious grandchildren (with another one on the way!). I also want to express my appreciation to my mom, Carol, for her lifetime of unconditional love and infinite encouragement. I'm also grateful to my father, Westcott Griswold (who passed away in 2008), for the positive role model he was in his work ethic and love for his family and friends, including my "second Mom" Sue Griswold, who has known me since I was born. We all miss him. Most of all, I want to praise and thank God for the wonderful gifts and incredible opportunities He has given me.

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It is with great appreciation and personal pride that I acknowledge my daughter, Sheri (Griswold) Coleman, and son, Stephen Griswold, CPM, who were instrumental in reviewing each chapter and offering many very helpful comments and suggestions while also offering their "millennial perspective." Likewise, I want to thank Dr. Deborah Phillips, CPM of The Quadrillion for her review and feedback of the chapters on marketing, advertising, and renting.

My interest in real estate can be traced back to my late father and mentor, attorney Westcott Griswold, who advised me to excel in real estate, not law; and my friend and first real estate professor at USC, Dr. Rocky Tarantello. Thank you!

I was blessed to formally begin my real estate management career working with two of the most savvy, knowledgeable, and ethical men in real estate — thank you, Rod Stone and George Fermanian, for starting me on the right track. In my property management days, I met many fine people, and two of the best are my friends, property manager Wade Walker and attorney Steve Kellman. I also want to thank attorney Kathy Belville-Ilaqua for her continued review and sage advice on fair housing materials, plus the great comments and feedback from Heather Stone and Glenn Demby of the *Fair Housing Coach* for this new edition.

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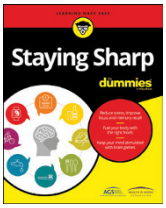

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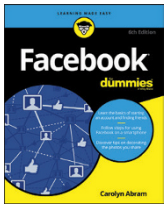

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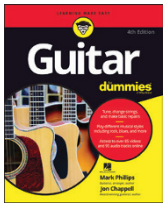

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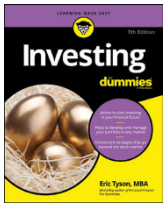

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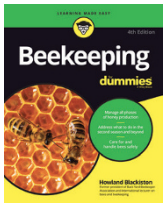

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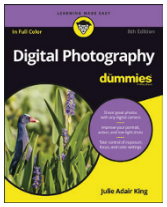

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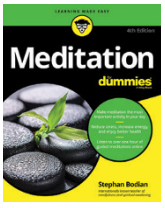

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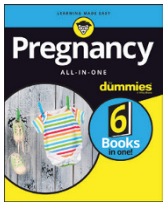

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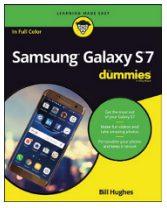

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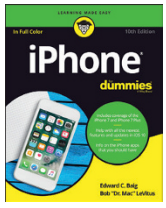

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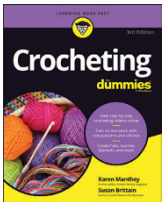

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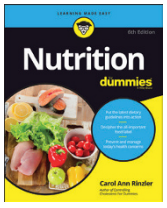

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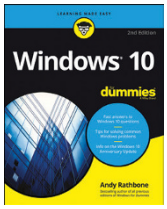

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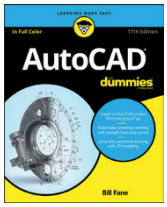

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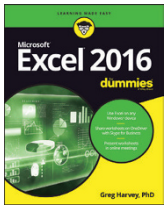

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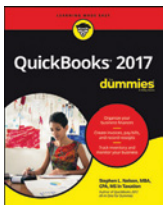

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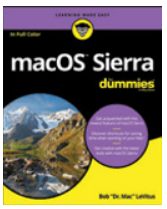

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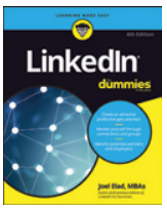

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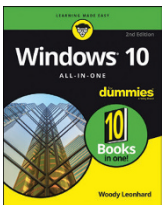

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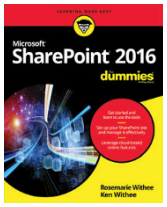

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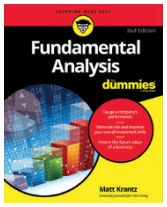

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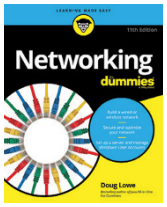

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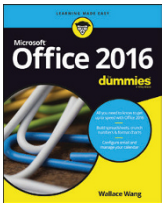

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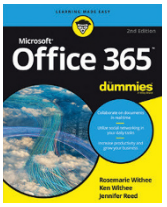

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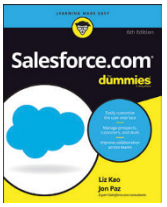

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